RWE
The energy to lead

Management Report

of RWE Supply & Trading GmbH

for the Financial Year from

January 1, 2013 to December 31, 2013

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Management Report

1. Business performance and economic environment

RWE Supply & Trading GmbH, Essen, (RWEST), has been registered with the Essen commercial register under number HRB 14327 since July 11, 2000 and meets the classification conditions for a large corporation within the meaning of Sections 267 (3) and (4) HGB [Handelsgesetzbuch - German Commercial Code].

RWEST is responsible for the RWE Group's energy and commodity trade, the long- and short-term marketing and hedging of the electricity position, as well as for the gas midstream business of the Gas Supply division. In addition, RWEST supplies electricity and gas to a certain number of major German and Dutch industrial and business customers (Sales & Origination).

Main lines of business within the energy and commodities trade are electricity, gas and certificates trading at the Company's headquarters. The locations in the United Kingdom mainly trade in oil, gas, electricity, and coal.

Our new "Principal-Investment" business leverages the RWE Group's market know-how and its physical trading activities in order to effect private equity investments strongly associated with the RWE core business.

The Company is not engaged in any activities under Section 6b (3) clause 1 EnWG [German Energy Industry Act].

RWE Supply & Trading GmbH as part of the RWE Group

The sole shareholder of RWEST is RWE Aktiengesellschaft, Essen, (RWE AG), with whom a control and profit and loss transfer agreement exists. RWEST is included in the consolidated financial statements of RWE AG, which are prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU.

Furthermore, the Company has a number of operating subsidiaries. The Company's major subsidiaries are located at/in the following places/countries:

- Essen/Federal Republic of Germany
- Geneva/Switzerland
- London/United Kingdom
- New York City/USA

- Singapore/Singapore
- Ashington/United Kingdom

Another company from the RWE Group domiciled in Prague/Czech Republic is allocated to the gas midstream business. It is not directly affiliated with RWEST under company law.

Together with RWEST as the management company, the aforesaid companies form the Trading/Gas Midstream segment within the RWE Group.

RWEST runs the following branches in Germany and abroad:

Branches	Sales net of electricity/natural gas tax in €m	Headcount as of 12/31/2013 FTE
Essen/Federal Republic of Germany	53.143,9	827,6
Swindon/United Kingdom* London/United Kingdom*	66.690,2	481,8
Prague/Czech Republic	-	-
Kosice/Slovakia	-	-
Dubai/United Arab Emirates	-	-
Helsinki/Finland	-	-
Netting of internal transfer pricing and netting of trading sales	-105.358,4	
Total RWE Supply & Trading GmbH	**14.475,7**	**1.309,4**

*= under joint management

FTE (=Full Time Equivalents) signifies the number of employees converted into full-time jobs

Economic environment

Economic situation

According to first estimates, the global economic output increased in 2013 by approx. 2% compared with the prior-year level. On the other hand, the eurozone gross domestic product is likely to have decreased by approx. 0.5% in the past year, in particular due to the uncertainties arising from the sovereign debt crisis. The economic output in Germany, which is the largest national economy within the currency area, is expected to have increased by about 0.5% year on year. In this respect, private consumption had a particularly positive effect.

Weather

The weather plays a key role in energy demand and in the generation of renewables. In the past year, temperatures in Germany altogether fell below those of the preceding year and slightly below the long-term average. Wind levels were far below the prior-year value and the long-term average. Insolation, too, was significantly lower than in the preceding year, though only slightly lower than the long-term average.

Demand for electricity and gas

Currently available data indicate that power consumption in Germany declined by roughly 2% in 2013. This has mainly been due to the weak development of industrial production and to general efficiency improvements. The demand for gas is expected to have increased at probably 7%, which is markedly above the prior-year value. The main reasons for this increase will have probably been the lower temperatures in the first half of the year, which also more than compensated for the lower use of gas in electricity generation.

Electricity prices

Compared to the previous year, electricity prices on the EEX wholesale energy exchange decreased markedly in 2013, in fact by 11% to just under €38/MWh (base contract) and to about €43/MWh (peak contract). This development is for the most part due to the decline in hard coal and emission certificate prices and to the increasing feed-in from wind and solar power plants. The following trend showed in business with consumers in the past year: residential customers had to pay about 12% more on average, whereas industrial customers paid almost 4% more.

Gas prices

The 2013 price for gas imports into Germany (BAFA [Federal Office of Economics and Export Control] price) of about €28/MWh was approximately 5% lower than in 2012. The main reasons for this price decline have been lower oil prices and consequently reduced oil-indexed contracts, revisions of the oil-indexed contracts, and a generally increasing share of spot price-based imports/contracts at the BAFA price. Spot prices on the Dutch TTF spot market as the continental European „key market“, which ruled at an average value of about €27/MWh, exceeded the corresponding prior-year price by approx.10%. Residential tariffs increased by approx. 1.5%, whereas the prices for industrial customers were at their prior-year level.

Oil and coal prices

In 2013, the annual average price for internationally-traded Brent oil ruled at $109/bbl and thus only slightly below the prior-year level. The continuously increasing demand from the emerging countries and the unrelieved tense situation in the Near East as well as unexpected delivery shortfalls with some producers caused the price level to stabilize and compensated for price-curbing factors such as an increasing non-OPEC production (notably in the USA). Coal was traded at $82/t (API#2) on the European spot market, thus going down by about 12%. The situation here was mainly influenced by a noticeably extended offer due to new mines along with a moderate increase in demand. According to first estimates, the cross-border price (BAFA) for coal imports into Germany declined by just under 15% to about €79/t HCU.

CO_2 certificate price

Under the European Union Emissions Trading System, companies generating electricity from fossil fuels have to acquire certificates equivalent to the amount of CO_2 emitted. The price for these so-called EUAs (EU Allowance Units) went down in 2013 to about €4.5/t CO_2 due to the cyclically-induced subdued industrial production and increasing electricity generation from renewable sources of energy, and is thus approx. 40% below the mean value of the preceding year.

Employees

As of the balance sheet date, 1,309.4 people (full-time equivalents (FTE)) were in the employ of RWEST.

2. Significant events

In the reporting period

The reporting year was mainly characterized by the fact that we acquired significant business activities of affiliated companies in the Netherlands and in Switzerland, as had been the case in the preceding year, with the aim of concentrating certain trading activities at RWEST. To this end, assets, liabilities and pending transactions have been measured at fair value and transferred by way of singular succession at the appropriate purchase prices (hereinafter referred to as “portfolio additions”).

Impairment tests with regard to our shares in affiliated companies showed that a write-down was needed in two cases.

In the expired financial year, we reversed provisions for risks from plaintiff’s and defendant’s lawsuits. Aside from the successful completion of proceedings, the risks of which had been provided for in the prior-year financial statements, part of the reversals is attributable to a risk assessment update performed in the reporting year. As a trading company from the energy sector we are involved in a manageable number of other legal and arbitration proceedings as part of our ordinary business activities, for which provisions have been set up in the balance sheet.

Furthermore, we entered into agreements with customers for the temporary assignment of gas storage capacities to the contracting parties in financial year 2013. Due to the resulting reduction in own storage capacities, part of the gas supplies from long-term gas procurement contracts was sold during the year.

Post balance sheet events

There were no significant events after the balance sheet date.

3. Net assets, financial position and results of operations

General information

Reference is made to the fact that fair values of pending energy trading contracts and changes to such contracts during the financial year are generally not recognized in the annual financial statements because of the requirement to comply with commercial law provisions. Net assets and results of operations as presented in the income statement prepared in accordance with commercial law may, therefore, visibly differ from the amounts determined for internal management purposes. As regards fair values not reported in the balance sheet, please refer to the "Valuation units under Section 254 HGB" section in the notes to the annual financial statements.

A key management ratio for RWEST is performance, which reflects the change in the economic value of the portfolio and is essentially based on the performance gross margin, a variable explained in more detail below. Performance is completely fair value based, with the changes of the fair values of all pending transactions being taken into account. In order to facilitate a comparison of the forecasts reported in the preceding year with the actual results of the financial year, we additionally explain the development of commercial law margins in the different businesses, which margins take account of other operating income and expenses directly attributable to the commercial business aside from sales and cost of materials.

Within the income statement under commercial law, trading margins from realized energy trading transactions and energy-related derivatives per commodity are netted and shown in sales (positive overall result) or in the cost of materials (negative overall result) for the Trading division, which performs energy and commodity trading.

Gains and losses from foreign exchange transactions, including currency derivatives, are reported in net value in other operating income or other operating expenses in the HGB-based income statement as well.

Results of operations

- **Performance**

In the expired financial year, the overall performance gross margin amounted to about €1.0 billion (previous year: €1.2 billion). As in the preceding year, the Power Plant Optimization unit provided the largest contribution to the performance gross margin. However, most of the results generated by this unit do not remain within RWEST; reference is made to the comments in the notes to the financial statements ("Transactions under Section 6b EnWG" section). The decrease in the performance gross margin by year on year in total about €200 million is mainly attributable to our trading business.

- **HGB-based margin**

In line with expectations, the HGB-based margin of the Trading division (energy and commodity trade) improved as against the previous year by about €100 million, because forward transactions successfully concluded in previous years were recognized in income in financial year 2013. The largest contribution in this regard was provided by our continental European electricity desk.

The Sales & Origination division completely satisfied expectations in the expired financial year. The HGB-based margin increased markedly by about €50 million, with the increase being mainly attributable to the reversal of a provision for a legal dispute set up already in 2011.

With due regard to special impacts, the HGB-based margin of the Gas Supply division stabilized, as expected, following structural adjustments with regard to long-term procurement contracts in the preceding year, and relates mainly to storage optimization. The actually generated negative HGB-based margin of roughly €100 million is especially burdened by a non-recurring compensation payment in connection with storage contracts. As compared with the previous year, the HGB-based margin decreased by roughly €1.3 billion; the aforesaid contract adjustments resulted in high income in the previous year with no corresponding income existing in the expired financial year.

Furthermore, the HGB-based margin of our Power Plant Optimization division increased by about €85 million. In this respect, too, reference is made to the comments in the notes to the financial statements (cf. above).

- **Development of other income and expense items of the HGB-based income statement**

Other operating income of the financial year includes about €100 million from the reversal of provisions for risks from plaintiff's and defendant's lawsuits which are not to be allocated to the aforesaid HGB-based margins for the individual divisions. Account being taken of the allocation of individual items to HGB-based margins, the other operating income is in line with its prior-year level.

Personnel expenses, too, are on level with the previous year.

In addition to this, there were write-downs of shares in affiliated companies in the amount of €107.8 million and write-downs due to realization for portfolios acquired in 2012 and 2013 in the amount of €88.7 million. Depreciation of tangible assets and write-downs of financial assets have a roughly €60 million higher impact on the result for the year than in the previous year.

The decrease in other operating expenses by about €200 million is primarily due to the fact that no expenses corresponding to the transfers to provisions effected in the preceding year exist in financial year 2013.

Furthermore, the interest portion for provisions increased noticeably due to the assumption of a contract involving provisions from a subsidiary at the end of the last year. Compared with 2012, this caused a material deterioration of the financial result by about €30 million.

Because of the development of the HGB margins described above and the other income and expense items, the result on ordinary activities of €-93.8 million is by far short of expectations compared with the forecast and roughly €800 million below the result for the previous year. Major special impacts and changes as against the previous year are explained above.

The loss for the year of €-103.8 million (previous year: transfer of profit in the amount of €766.1 million) is compensated by RWE AG under the control and profit and loss transfer agreement.

Investing activities

The fixed assets of RWEST comprise intangible assets, tangible assets, and financial assets.

In financial year 2013, RWEST's fixed assets changed by €-172.4 million. The reason for this are the amortization of intangible assets from portfolio additions in financial years 2012 and 2013, as well as the write-down of our financial assets.

Development of net assets and financial position

At €5,676.5 million, the balance sheet total reported for the year under review is clearly lower than in the previous year (€8,124.0 million).

On the assets side, mainly receivables and other assets decreased by €1,783.3 million, whereas inventories decreased by €518.2 million, financial assets by €143.4 million, and intangible assets by €36.6 million.

The decrease in financial assets is mainly due to write-downs of shares in affiliated companies.

The decrease in inventories results primarily from reduced coal, oil, biomass and gas inventories.

As regards intangible assets, write-downs of portfolio additions in financial years 2012 and 2013 overcompensated the portfolio additions of the financial year.

Receivables and other assets decreased by €1,783.3 million, primarily due to the decline in receivables from affiliated companies (€2,185.0 million; previous year: €2,740.6 million).

Current assets account for 92.5% of total assets and thus keep level with the previous year (previous year: 92.6%). The share of fixed assets constitutes 7.5% of total assets and is thus also at prior-year level (previous year: 7.4%).

Shareholders' liability and equity are characterized by a decline in liabilities of €2,168.7 million, which is mainly due to a reduction in payables to affiliated companies.

The ratio of liabilities to total assets is 75.2% and thus keeps almost level with the previous year (previous year: 79.3%).

As regards contingent liabilities which, in accordance with [German] commercial law provisions, have not been reported on the liabilities side of the balance sheet, reference is made to the appropriate comments in the notes to the annual financial statements.

The Company is integrated into the cash management system of RWE AG. In addition to the existing cash and cash equivalents, the development of which is shown in the following cash flow statement, the funds accounts existing with RWE AG are, therefore, an important liquidity planning component. The Company's financial solvency has been permanently ensured for this reason too.

Cash flow statement

	2013	2012
Cash and cash equivalents at beginning of year	**49,6**	**70,8**
Net income/loss before profit and loss transfer	- 103,8	766,1
Amortization and depreciation and write-up of fixed assets	236,0	177,5
Increase/decrease in provisions	- 270,5	- 635,9
Increase/decrease in inventories	518,1	- 100,5
Increase/decrease in receivables	1.357,6	967,2
Increase/decrease in other assets/securities/accruals and deferrals	428,0	1.030,4
Increase/decrease in liabilities	- 2.168,7	- 1.282,6
Cash flow from operating activities	**- 3,3**	**922,2**
Proceeds from the disposal of financial assets	37,1	6,2
Payments for investments	- 100,7	- 183,5
Cash flow from investing activities	**- 63,6**	**- 177,3**
Profit and loss transfer	103,8	- 766,1
Cash flow from financing activities	**103,8**	**- 766,1**
Net cash flow	**36,9**	**- 21,2**
Cash and cash equivalents at end of year	**86,5**	**49,6**

4. Outlook

The performance gross margin for the Trading division is expected to increase markedly in the next year; inter alia due to an even stronger internationalization, the foundation of which was already laid 2013. Nevertheless, our HGB-based margin will probably decrease in the year to come, because part of the anticipated income will be reflected in realization only in subsequent years. Furthermore, we expect that the HGB-based margin will not benefit from the realization of past performance in 2014 to the same extent as in 2013.

As regards our Power Plant Optimization division, we anticipate a performance gross margin at the level of financial year 2013.

A constant performance gross margin in the tens of millions of euros will probably be generated by our Sales & Origination division.

We also expect that the new Principal Investment business will generate a performance in the tens of millions of euros in 2014 owing to the successful sale of shares.

The performance gross margin of our Gas Supply division is expected to be clearly under the amount for financial year 2013 with a figure in the tens of millions of euros, which will be generated primarily through storage optimization.

With regard to 2014, we expect an overall performance gross margin approximately keeping level with the expired financial year.

We further expect that the current level of operating costs can be maintained. They include in particular personnel expenses and other operating expenses.

Based on the aforesaid assumptions, the result on ordinary activities for the next year is expected to increase to a positive figure in the tens of millions of euros. The forecast decline of the HGB-based margin for the Trading division is likely to be covered by improvements of the margin in the Gas Supply division; in the expired year, the margin for the Gas Supply division included special impacts not expected for 2014. Furthermore, a probably improved result from investments and lower regular amortization of intangible fixed assets will essentially contribute to the expected increase in the result on ordinary activities.

Economic situation

According to first estimates, the global economic output is expected to rise by approximately 3% in 2014. The measures necessary to consolidate national budgets will probably slow down growth in the euro area. The eurozone gross domestic product may thus increase by roughly 1%. Prospects for the German economy appear to be more favorable: Following an approximately 0.5% growth in the expired year, the German Council of Economic Experts considers a 1.6% increase in output possible for 2014. Stimuli are expected especially from a healthy labor market and from increased disposable incomes.

Demand for electricity and gas

With temperatures in the heating period at the beginning of 2013 clearly below the long-term mean, gas and electricity consumption subject to weather conditions will probably again be under the values for the previous year, provided that 2014 will bring normal temperatures. In contrast to this, the portion of demand for electricity and gas dependent on economic trends is supposed to exceed the prior-year level in view of the more favorable growth prospects for 2014. As regards power plant gas consumption, no material increase is, in view of anticipated quite low CO_2 and coal prices and persistent high gas prices, currently to be expected.

Energy prices

Forward contracts for the year 2014 with regard to internationally traded commodities such as oil and coal were last quoted at about $105/bbl. and $81/t respectively and thus roughly 3% below the 2013 price level. Gas forward contracts (TTF) for 2014 are valued at approx. €27/MWh, which is thus roughly equal to the spot price level of the previous year. Because of expected lower oil quotations and the revision of contracts, oil-indexed gas imports will probably continue to fall so that the spread between oil-indexed prices and spot market prices will keep decreasing.

Somewhat higher prices are currently expected for CO_2 certificates: forwards for 2014 at €4.7/t are about 4% above the 2013 spot market prices. Traders in the electricity market expect an inconsistent trend for 2014: the EEX base forward contract is currently quoted at on average roughly €36/MWh, which is approx. 4% below the average spot market prices in 2013, whereas the peak forward contract is quoted at about €47/MWh and is thus approx. 10% above the average peak price in 2013.

5. Risks and opportunities

As the RWE Group's interface with the global wholesale energy and energy commodities markets, RWEST takes on a central role by concentrating available know-how related to commodity transactions and, concurrently, the associated risks. Fluctuating electricity and fuel prices in the wholesale markets and changing market structures make professional risk management indispensable. For us, the systematic recording, assessment and management of risks are core elements of sound business management. It is equally important to identify and use opportunities.

Risk management at RWE Supply & Trading GmbH

As part of the group-wide risk management of RWE AG, a risk management system (RMS) has been implemented by RWEST and its affiliated companies to allow the early identification and monitoring of any risks to the Company, as well as the taking of countermeasures.

Organization of risk management. The overall responsibility for our RMS lies with the management of RWEST. It determines rules and minimum standards based on the requirements of the *Gesetz zur Kontrolle und Transparenz im Unternehmensbereich* (KonTraG) [Corporate Control and Transparency Act], the *Mindestanforderungen an das Risikomanagement für Kreditinstitute* (MaRisk) [Minimum Requirements for Risk Management of credit institutions], and international best practice standards. In addition to the upper limits for aggregated market and credit risks set by RWE AG, it also defines limits for individual trading desks and partners. Furthermore, it decides on individual transactions which may carry substantial risks.

The Risk unit, which is located within the department of the Chief Financial Officer (CFO), is responsible for the monitoring, measurement, control, management and further development of the RMS with regard to commodity price, credit and operational risks. This organizational unit reports on the risk position to the Management and to RWE AG on a regular basis. The guidance provided by RWE AG with regard to the monitoring, control and management of financial risks (currency, interest, and liquidity risks) is implemented by the Finance division. In addition to his, the Compliance division monitors, inter alia, compliance with the RWE code of conduct, with particular focus on the avoidance of corruption risks. These two divisions also report to the CFO.

Trading and sales functions (front office) have been separated from back office, accounting, compliance and risk controlling right up to the management level. This ensures that central risks are monitored independently and that any defined rules and minimum standards are implemented.

Risk management as a continuous process. Risk management is integrated into our business processes as a continuous practice following the standards set in the RWE "Risk Management" guideline. This guideline reflects the requirements of the KonTraG with regard to the minimum requirements of RWE AG to the operational and structural organization of an RMS at the RWE group companies. Within RWEST, we have set minimum standards going beyond this and implemented specific processes for the management of market price, credit and operational risks. Any identified risks under the KonTraG are assessed at least once per half-year by their respective probability of occurrence and the potential extent of damage, and aggregated at corporate level. This enables us to derive whether and to what extent there is need for action. We use operational means to limit risks with a high probability of occurrence and a high potential extent of damage. No risk reported in accordance with KonTraG requirements has a probability of occurrence of more than 50%. Provisions are set up for risks with a probability of occurrence of more than 50%; in particular cases, provisions may even be appropriate with regard to a probability of occurrence of less than 50%, provided that this is suitable under HGB-based accounting regulations (notably the principle of prudence).

The observed period covers the three-year period of our medium-term planning. In the case of material strategic risks, it may extend even beyond that.

We assess and manage opportunities as part of our quarterly planning. The Management and RWE AG are provided with standardized reports on risks and opportunities according to schedule. The Management is immediately informed of any unforeseen material changes in the risk position. The implementation of the aforesaid group guideline within RWEST and its affiliated companies has been verified by the group auditor of RWE AG. The committees and office holders responsible under the guideline make sure that potential risks are identified, systematically recorded, assessed and examined on a quarterly basis.

In addition, the RWE group internal audit department examines the appropriateness and functionality of our RMS at regular intervals. Nonetheless we cannot guarantee with absolute certainty that all relevant risks are identified early and that the controls work. Human misconduct, for example, can never be ruled out completely.

Overall assessment of the risk and opportunity position by the management

Supply and demand trends on the energy and commodity markets have a large impact on our results of operations. We also notice changes in market structures. For example, the continuing rise in the number of wind and solar power plants is leading to the replacement of conventional generation capacities. The gas market, too, is undergoing change. The increasing importance of liquid markets and the expansion of shale gas production in the USA have played a material part in contributing to the uncoupling of gas trading prices from oil-price indexed prices; since 2009, gas trading prices have clearly dropped below oil-indexed prices. As regards the majority of our oil-price indexed contracts, we have been able to establish an adjustment of the terms to the market development. Furthermore, we see a trend towards stronger regulation with regard to energy trading transactions. This, and also the categories described below, result in significant risks, but also opportunities, for us. We don't see any risks threatening the Company's continued existence.

Major categories of risks and opportunities

The following risks and opportunities may have a significant impact on our net assets, financial position and results of operations:

Risks and opportunities from commodity price fluctuations. Price movements in the commodity markets largely influence RWEST's result, because its trading activities are – in contrast to the tasks being part of the management of the group's generation position with due regard to RWE AG's hedging guidelines – aimed at using price changes in the energy markets in a well-targeted way.

We counter commodity price risks by an active opportunities and risk management, which includes the following central elements aside from functional separation:

- principle of dual control for all business transactions;
- use of integrated systems for front office, back office and risk controlling with user-specific access and admission rights;

- trading in new products/markets or with new counterparties, or by individual transactions only after a successful approval process;
- extensive limit system for limiting any price risks incurred;
- permanent monitoring of major risk positions and indicators, and regular, timely reporting.

Value-at-Risk (VaR), which must not exceed €40 million, is a key indicator for monitoring commodity risks incurred in trading transactions. VaR indicates the value of a potential loss from a risk position with a given probability that will not be exceeded in a given period of time. VaR figures are generally based on a confidence level of 95%; a holding period of one day is assumed for the positions. Including correlations, VaR averaged €8 million in the financial year; the maximum daily amount was €14.5 million.

In addition to the VaR limit, we have set limits for the individual trading desks. Trading transactions are recorded and reported in strategy-related portfolios, which are partly separated by regions. Clear portfolio management responsibilities for the respective principal traders, who in turn report directly to the managing director responsible for the Trading division, exist in this respect. Desk portfolios are divided further; such sub-portfolios are managed by the appropriate responsible traders. Additional limits have been set for some of the sub-portfolios.

VaR figures and limit utilization are determined daily and reported to the executives and the Management. We also regularly use stress tests to record the risk of extreme market price fluctuations going beyond the VaR computations. If the risks are too high, countermeasures are taken. The Management and RWE AG are informed monthly of consolidated commodity risk positions and stress test results. These risks are reported under the KonTraG with an expected probability-weighted risk value of €141 million in the observed time period.

In compliance with the internal risk management and control system, the underlying transactions are recognized as valuation units for accounting purposes. To a large extent, the valuation units contain financial instruments as hedged items and hedging transactions. Reference is made to the comments in the “Valuation units under Section 254 HGB” section in the notes to the financial statements.

Risks and Opportunities from market volatility and market liquidity. The energy trading business is largely subject to the volatility of the individual commodity markets. As before, this presents major opportunities to RWEST for benefitting from such price fluctuations. Additional growth potential for RWEST results from the development of new energy trading markets in Eastern Europe and from the increasing liquidity of the gas markets. This situation and the expansion into Asian fuel and international electricity markets offer RWEST additional opportunities for development.

Potential risks for us might arise from the low liquidity of the UK electricity trading market. Furthermore, bills aiming at a stronger regulation of energy trading transactions have been adopted at a European level and might affect market liquidity. Inter alia, utilities have been obligated to handle commodity derivatives trading via clearing houses and provide more financial collateral than before if derivative positions exceed a certain financial volume involved. These risks are reported under the KonTraG with an expected probability-weighted risk value of €44 million in the observed time period.

Risks and opportunities from gas procurement contracts. We procure gas through both liquid gas wholesale markets, such as TTF (the Netherlands), NBP (United and Kingdom) and NCG (Germany), and on the basis of long-term procurement contracts. Since 2009, prices at the aforesaid trading points have been uncoupled from those in oil-price indexed contracts and temporarily dropped visibly below such prices. Due to contractual commitments, we therefore purchased gas at substantially higher prices than those paid for gas procured in the market. This has led to declines in margins.

In order to achieve procurement terms in line with the market trend, we commenced renegotiations with our gas suppliers in previous years. We have already achieved positive negotiation outcomes: The contracts have in large part been changed over to gas wholesale price indexing or were prematurely terminated by mutual agreement. These risks are reported under the KonTraG with an expected probability-weighted risk value of €7 million in the observed time period.

Credit risks. Credit risks arise from our business relationships with trading partners (including banks), key accounts, and suppliers. We monitor the financial standing of our business partners in a timely manner. We assess their creditworthiness before and during the business relationship using our own internal ratings, which also take account of external information, e.g. assessments by rating agencies. We also make sure that the standards applying across the Group are complied with in the assessment and management of credit risks. We restrict our credit risks by fixing limits and adjusting such limits in particular if the credit standing changes. Where appropriate, we ask for cash collateral or bank guarantees. An approved credit limit must exist before a transaction can be concluded. Credit risks and limit utilization are measured daily and reported to the Management and to RWE AG on a monthly basis.

Exchange-traded and over-the-counter energy transactions are generally concluded on the basis of standardized master agreements, as provided inter alia by the European Federation of Energy Traders (EFET). We also agree the provision of security. For financial derivatives, we use the German master agreement or the master agreement from the International Swaps and Derivatives Association (ISDA). These credit risks are reported under the KonTraG with an expected probability-weighted risk value of €7 million in the observed time period.

Operational risks. By this we understand potential losses arising from inadequate or incomplete processes, procedures and systems, human misconduct or external circumstances. Major actual and potential losses are recorded regularly, analyzed in terms of their causes, and reported to the Management. Operational measures are derived from that, with their implementation being monitored. In order to limit the extent of any possible damage due to business interruption, a contingency plan has been prepared and is tested on a regular basis. Any deficiencies with regard to the availability of IT infrastructures and the security of our database are counteracted by high security standards. Risks from employee fluctuation are limited by substitution arrangements and an early succession planning. It is our intention to retain our specialized and executive staff on a long-term basis through performance related remuneration, progressive employee benefits, a broad range of career prospects, and attractive further education and training opportunities. These risks are reported under the KonTraG with an expected probability-weighted risk value of €55 million in the observed time period.

Legal and regulatory risks. Legal and regulatory risks are, inter alia, extensively recorded and discussed within the KonTraG process. If necessary, countermeasures are taken. Appropriate provisions have been set up for legal risks, i.e. potential losses from cases pending before courts of law and arbitration tribunals. The asserted claims definitely exceed the provisions. However, in view of the legal assessments available to us, we consider these claims as unfounded. Nevertheless, there is a risk that RWEST will not be able to assert its argument.

We continuously keep track of changes to market structures (e.g. the introduction of capacity markets) and regulatory conditions with regard to energy trading (e. g. REMIT, EMIR) in order to anticipate them early and implement such changes timely where appropriate. This includes risks and opportunities from increasing regulation of the energy trading business within the scope of MiFID II. Concentrated monitoring of markets and competitors helps us to record and assess risks and opportunities with influence on the corporate strategy at an early stage. These risks are reported under the KonTraG with an expected probability-weighted risk value of €75 million in the observed time period. Furthermore, liquidity risks to our subsidiary RWE Trading Services GmbH may arise from the reported regulatory changes.

Financial risks and opportunities. Our business is subject to currency and interest fluctuations as well as to liquidity risks. The significance of exchange rate changes follows from our international presence. In particular, we trade energy sources such as coal and oil in US dollars. Generally, currency risks with regard to our contracted business are completely hedged against the euro.

We largely preclude interest rate risks owing to the refinancing of long-term commitments at matching maturities. The contracting partner for all currency and interest rate hedging transactions is the Treasury department of RWE AG.

We are also integrated into the liquidity management of RWE AG. We have to provide trading partners with collateral at short notice if contracts experience a loss when valued at current market prices. In the reverse case, we receive collateral from our counterparties.

With the scope of a group-wide notification system, we regularly record and report to RWE AG our short-term, medium-term and long-term funding requirements. Furthermore, we use stress tests to determine the unexpected liquidity needs for the provision of collateral. RWE's liquidity planning ensures that we are at all times able to pay. These liquidity risks are reported under the KonTraG with an expected probability-weighted risk value of €20 million in the observed time period.

There is a probability-weighted opportunity in the amount of €265 million from possible inflows from margin calls. The liquidity risk from any outflows of funds is reported at a probability-weighted total amount of €652 million.

Essen, February 7, 2014

The Management

Stefan Judisch

Dr. Markus Krebber

Alan Keith Robinson

RWE
The energy to lead

Annual Financial Statements as of December 31, 2013

RWE Supply & Trading GmbH

Balance Sheet of RWE Supply & Trading GmbH as of December 31, 2013

Assets	12/31/2013 €m	12/31/2012 €m
A. Fixed assets		
I. Intangible assets		
1. Concessions acquired for a consideration, industrial property rights and similar right and assets, and licenses in such rights and assets	100,6	112,3
2. Goodwill	124,6	149,5
	225,2	**261,8**
II. Tangible assets		
1. Technical equipment and machinery	0,0	0,0
2. Other equipment, factory and office equipment	14,4	6,9
3. Construction in process	0,1	0,0
	14,5	**6,9**
III. Financial assets		
1. Shares in affiliated companies	166,4	275,4
2. Other long-term equity investments	0,0	30,7
3. Other loans	20,1	23,8
	186,5	**329,9**
B. Current assets		
I. Inventories		
Merchandise	**276,2**	**794,3**
II. Receivables and other assets		
1. Trade receivables	958,8	1.464,5
2. Receivables from affiliated companies (of which from the shareholder €m 230.2; previous year: €m 0.0)	2.184,9	2.740,6
3. Receivables from other long-term investees and investors	0,0	296,3
4. Other assets	1.189,5	1.615,2
	4.333,2	**6.116,6**
III. Securities		
Other securities	**539,7**	**541,3**
IV. Cash and cash equivalents	**86,5**	**49,6**
C. Prepaid expenses and deferred charges	**14,7**	**23,6**
	5.676,5	**8.124,0**

Shareholders' equity and liabilities	12/31/2013 €m	12/31/2012 €m
A. Shareholders' equity		
I. Subscribed capital	15,0	15,0
II. Capital reserves	431,8	431,8
	446,8	**446,8**
B. Provisions		
1. Provisions for pensions and similar obligations	29,3	20,5
2. Tax provisions	19,8	20,6
3. Other provisions	882,9	1.161,4
	932,0	**1.202,5**
C. Liabilities		
1. Liabilities to banks	33,0	12,7
2. Customer advances	46,3	44,9
3. Trade payables	1.632,0	1.818,4
4. Payables to affiliated companies (of which to the shareholder €m 426.0; previous year: €m 1,260.8)	2.063,2	4.022,6
5. Other liabilities (of which taxes €m 35.9; previous year: €m 121.2) (of which social security payables €m 1.5; previous year: €m 1.5)	495,2	539,8
	4.269,7	**6.438,4**
D. Deferred income	**28,0**	**36,3**
	5.676,5	**8.124,0**

Income Statement of RWE Supply & Trading GmbH for the Period from January 1 to December 31, 2013

		2013 €m	2012 €m
1.	Sales	14.475,7	13.112,5
2.	Natural gas tax/electricity tax	-96,0	-54,2
3.	Sales (net of natural gas tax/electricity tax)	**14.379,7**	**13.058,3**
4.	Other operating income (of which from currency translation € 0.0; previous year: €m 235.0)	243,3	1.481,9
5.	Cost of materials		
	a) Cost of merchandise	13.394,4	12.482,3
	b) Cost of purchased services	520,6	422,3
		13.915,0	**12.904,6**
6.	Personnel expenses		
	a) Salaries	196,0	204,9
	b) Social security, pension and other benefits (of which relating to pensions €m 7.0; previous year: €m 7.9)	22,0	22,5
		218,0	**227,4**
7.	Amortization and depreciation of fixed intangible and tangible assets	128,2	55,7
8.	Other operating expenses (of which from currency translation €m 36.1; previous year: €m 0.0)	317,0	523,7
9.	Income from long-term equity investments (of which from affiliated companies €m 4.2; previous year: €m 6.1)	4,2	6,1
10.	Income from long-term securities and loans (of which from affiliated companies €m 0.0; previous year: €m 0.0)	0,0	0,0
11.	Other interest and similar income (of which from affiliated companies €m 11.6; previous year: €m 42.9)	56,9	70,6
12.	Write-down of long-term financial assets and current securities	107,8	122,0
13.	Expenses from loss assumption	0,5	0,9
14.	Interest and similar expenses (of which to affiliated companies €m 69.2; previous year: €m 59.6) (of which from interest added €m 16.6; previous year: €m 1.8)	91,4	67,9
15.	**Profit/loss on ordinary activities**	**-93,8**	**714,7**
16.	Taxes on income	-10,0	51,4
17.	Income from transfer of loss (previous year: profit transferred on the basis of a profit and loss transfer agreement)	103,8	-766,1
18.	**Net income for the year**	**0,0**	**0,0**

0.0 minor amount (exception: net income for the year)
- non-existent

Notes to the Financial Statements of RWE Supply & Trading GmbH for the Financial Year from January 1 to December 31, 2013

RWE Supply & Trading GmbH (hereinafter referred to as "RWEST") has been registered with the Essen commercial register since July 11, 2000 under the number HRB 14327. The Company's headquarters are located in Essen.

According to the Management's view, RWEST comes within the scope of the One-Third Employee Representation Act (*Drittelbeteiligungsgesetz (DrittelbG)*): exertion of influence by employees on economic and managerial decisions) and is thus obligated to appoint a supervisory board. The composition of the supervisory board is subject to Sections 1 (1) No. 3, 4 (1) DrittelbG in conjunction with Sections 95, 96 (1) 4. Alt., 101 (1) German Stock Corporation Act (*Aktiengesetz (AktG)*), i.e. two thirds of its members are shareholder representatives, whereas one third are employee representatives. In accordance with Article 7 of the Articles of Association, the Supervisory Board has in total nine members.

The annual financial statements for the expired financial year have been prepared in accordance with the provisions of the German Commercial Code (*HGB*), the German Limited Liability Companies Act (*GmbHG*) and the German Energy Industry Act (*EnWG*). The sole shareholder of RWEST is RWE AG, Essen. RWEST is included in the consolidated financial statements of RWE AG, which are prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU. For this reason, RWEST is generally exempted from the duty to prepare own consolidated financial statements. The consolidated financial statements of RWE AG are submitted to the operator of the Federal Gazette (Bundesanzeiger Verlagsgesellschaft mbH, Cologne) and published in the Federal Gazette. RWE AG and RWEST have signed a control and profit and loss transfer agreement.

The annual financial statements of RWEST are prepared in euros (€); the amounts are stated in millions of euros (€ million) with one digit after the decimal point.

The income statement is classified using the nature of expense format.

I. Accounting and Valuation Policies

All portfolios acquired for a consideration in financial year 2013 and in the preceding year for the purpose of concentrating the trading activities of other RWE group companies are hereinafter referred to as "portfolio additions".

Fixed assets

Intangible fixed assets are recognized at amortized cost. Software is amortized on a straight-line basis over three to five years. Intangible assets acquired as part of various portfolio additions (contract values) are amortized over a period of three to seven years in accordance with the degree of realization. **Goodwill** recognized in fixed assets is amortized on a straight-line basis according to its expected useful life over a period of 15 years. It originates from an acquisition in financial year 2004. Its assumed life takes account of expectations, in particular with regard to its continuance, the term of certain long-term contracts, the employees' period of service and the anticipated time the integration of the divisions concerned into RWEST will take.

Tangible assets are reported at cost reduced by regular depreciation. Regular depreciation is applied according to the straight-line method. Additions to tangible fixed assets are depreciated on a precise month-to-month basis. Low-value assets costing up to €150 are completely written off in the year of addition. Assets costing between €150 and €1,000 are transferred to a collective item under Section 6 (2a) German Income Tax Act (*EstG*) and depreciated straight-line over five years. The item is all in all of minor importance.

Financial assets are measured at the lower of cost or fair value. Valuation is effected according to the lower-of-cost-or-market principle.

Current assets

Inventories are measured at cost using the average cost method. Inventories are part of the valuation units; special valuation requirements apply.

Receivables and other assets are always recognized at nominal amounts. All identifiable individual risks and the general credit risk are allowed for by appropriate write-downs. This applies also to margin and collateral payments included in other assets and accounting for the major part of this item. Assets solely serving the settlement of pension obligations (pension commitments covered by reinsurance) and non-accessible to other creditors are measured at fair value and offset against provisions for pensions and similar obligations. Furthermore, CO_2 certificates measured at cost are reported in other assets. Any lower values at the balance sheet date due to reduced net realizable values are taken into account in the context of valuation units.

Current securities are recognized at cost with due regard to the strict lower-of-cost-or-market principle.

Cash and cash equivalents are recognized at nominal amounts.

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges are reversed over the period of the underlying services and charged to profit or loss.

Shareholders' equity

The **shareholders' equity** is recognized at nominal value.

Provisions

Provisions take account of all identifiable risks and contingent liabilities. The value recognized is the settlement amount necessary according to sound business judgment with due regard to estimated future cost increases.
Other provisions falling due after more than one year are discounted at the average market interest rate of the last seven years corresponding to their residual term published by Deutsche Bundesbank.

Provisions for **pensions, concessionary obligations, semi-retirement obligations and long-service awards** are recognized on the basis of actuarial computations applying the 2005 G mortality tables by Klaus Heubeck, which consider a generation-dependent life expectancy, in accordance with the projected unit credit method. They have been discounted at the average market interest rate of the last seven years published by Deutsche Bundesbank in October 2013 (previous year: October 2012) for an assumed residual term of 15 years (Section 253 (2) clause 2 HGB). This interest rate is 4.9% per annum (previous year: 5.06%). The other actuarial assumptions imply annual increases in salaries and pensions, as well as fluctuation.

Actuarial assumptions in percent	Salary increases		Pension increases	
	12/31/2013	12/31/2012	12/31/2013	12/31/2012
Provisions for pensions	2,75%	2,75%	1,75%	1,75%
Concessionary obligations	2,75%	2,75%	1,75%	1,75%
Semi-retirement obligations	2,75%	2,75%	-	-
Long-service awards	2,75%	2,75%	-	-

Provided that provisions for pensions are covered by reinsurance, measurement under Section 253 (1) clause 3 HGB is generally effected at the fair value of the respective assets.

Valuation units under Section 254 HGB

Physical and derivative trading transactions concluded in the Trading division, which also includes the marketing and optimization of the Group's power plant position (Commercial Asset Optimization (CAO)), as well as pending physical and derivative trading transactions acquired as part of portfolio additions, viewed separated by trading desks, are measured off-balance sheet at their respective fair values within the scope of macro hedges, inventories included, if any. Macro hedges summarize the risk compensating effect of individual groups of hedged items.

Physical and derivative trading transactions concluded in the Supply division, as well as physical and derivative transactions acquired as part of portfolio additions, are measured within the scope of a macro hedge of pending gas procurement and sales contracts, including gas inventories and pending gas forwards, coal and oil swaps.

Pending physical and derivative transactions concluded in the Sales & Origination division are measured within the scope of a macro hedge of the physical hedged items and the hedging transactions concluded.

The said valuation units in terms of macro hedges are used to hedge against financial risks in the form of price risks with regard to the commodities traded at the respective desks.

The effective portions of the valuation units are reflected in the balance sheet by way of the net hedge presentation method, according to which the offsetting value changes of the hedged items and the hedges attributable to the respective hedged risk are not recognized.

The macro hedges used to hedge price risks, which hedges have a total fair value of €1,302.8 million (previous year: €1,746.1 million) at the balance sheet date, include assets at book values in the amount of €624.7 (previous year: €1,412.5 million), liabilities at book values of €384.2 million (previous year: €409.2 million), as well as pending transactions with positive fair values of €18,880.2 million (previous year: €13,109.6 million) and negative fair values of €17,807.7 million (previous year: €-12,214.1 million). The amount of the risks hedged by means of the macro hedges as of December 31, 2013 may be gathered from the following table:

Category	Positive fair value of pending transactions in €m	Negative fair value of pending transactions in €m	Fair value of inventories and other assets in €m	Net book values: Assets in €m	Net book values: Shareholders' equity and liabilities in €m
Price risks	**18.880,2**	**-17.807,7**	**230,3**	**624,7**	**384,2**
Electricity (Germany)	6.437,8	-6.410,8	0,5	34,8	10,0
Electricity (UK)	466,9	-455,9	0,0	24,2	6,9
CAO Power (Germany/BeNeLux)	7.055,8	-5.791,5	1,6	68,3	0,0
Gas (Germany)	1.589,9	-1.845,5	117,8	310,7	86,5
Gas (UK)	1.289,2	-1.438,6	73,1	98,7	261,3
Oil	43,7	-42,9	0,0	0,0	0,4
Coal	1.208,0	-1.073,4	15,2	60,0	12,7
Biomass	51,3	-19,1	22,1	28,0	0,0
Sales & Origination	737,6	-730,0	0,0	0,0	6,4

The “electricity (Germany)” valuation unit includes for the first time transactions from the “emissions” valuation unit, which had been a separate valuation unit in the previous year. The change was effected so as to reconcile the valuation units with management reporting and risk controlling respectively. Furthermore, the “currency hedge” valuation unit was abandoned.

On balance, the fair value of pending transactions amounted to €1,072.5 million as of December 31, 2013 (previous year: €895.5 million).

Macro hedging is intended to be undertaken for an indefinite period of time. A well-documented, appropriate and working risk management system exists for determining the prospective effectiveness of the macro hedges. The scope of action, responsibilities and controls are specified in a binding way in internal guidelines. Commodity derivatives trading is allowed within preset limits. These limits are defined by independent organizational units and monitored on a daily basis.

The central control variable for the Trading division is global Value at Risk (VaR), which relates to the trading business and may maximally amount to €40.0 million. Values at risk are generally based on a confidence level of 95% with an assumed holding period of one day for the positions. This means that there is a 95% probability that the daily loss will not exceed the global VaR amount. In financial year 2013, the global VaR ruled at €8.0 million on average (previous year: €6.3 million), whereas the maximum daily amount was €14.5 million (previous year: €13.3 million). The risk analysis is, however, not only based on the VaR level. We continuously include stress tests with extreme scenarios in our analysis to determine the influence they could have on liquidity and results of operations, and we take countermeasures if the risks are too high.

The effectiveness of the macro hedges is assessed at the end of every year by analyzing the fair values of the respective valuation unit. If the balance of all fair values of the involved transactions – taking account of any inventories included in the valuation units and any other book values of transactions by the respective valuation unit from portfolio additions and option premiums already recognized – is negative, a provision for valuation units is set up. In the event that positive fair values result, they are not recognized in the balance sheet.

As of the balance sheet date, provisions for macro hedges in the amount of in total €368.4 million (previous year: €443.3 million in the Supply division) were required, €6.2 million of which related to electricity (UK) and €362.2 million to the Supply division.

Liabilities

Liabilities are recognized at their settlement amount. Customer advances are disclosed separately. In order to improve clarity, they are not deducted from inventories.

Deferred income

Deferred income is reversed over the period of the underlying services and credited to profit or loss.

Deferred taxes

Due to the existing tax group for income tax purposes with RWE AG, no deferred taxes for the German activities are reported in the balance sheet. As regards the permanent establishment in the UK, deferred taxes are calculated separately. If an additional future tax charge results on balance, it is reported on the liabilities side of the balance sheet, whereas a future tax benefit is not capitalized pursuant to Section 274 (1) clause 2 HGB. Deferred taxes in the UK are calculated based on a tax rate of 20% (previous year: 23%).

Income statement

In order to improve the **reliability of the Company's results of operations**, sales and cost of materials in the Trading division are recognized net for each commodity, i.e. only the amount of the margins is disclosed.

As regards the Supply and Sales & Origination divisions, the gross amount of sales and cost of materials is disclosed, since midstream and end customer business is concerned.

Gains and losses on currency derivatives which are part of the valuation units, as well as other foreign exchange gains and losses are recognized net as other operating income or other operating expenses for all business divisions.

The related gross values are presented in the notes to the income statement for additional information.

Currency translation

Transactions in foreign currency are generally recognized at the (market or hedging) price prevailing at the time of initial recording and valued at the mean spot rate as of the balance sheet date. Losses from exchange rate changes at the balance sheet date are recognized in the income statement; unrealized translation gains are recognized in profit or loss only if the underlying assets or liabilities have residual terms of one year or less. Foreign currency risks are hedged within the scope of the RWE Group's central cash and foreign currency management with RWE AG's treasury department by rate hedging transactions in the respective currency of the commodity.

II. Notes to the Balance Sheet

Due to the portfolio additions already mentioned, the intangible assets balance sheet item as of the balance sheet date is not comparable with the prior-year figure. The corresponding acquisition cost is additionally stated with the balance sheet item.

(1) Fixed assets

As regards the movement in fixed assets, reference is made to the fixed asset movement schedule of RWE Supply & Trading GmbH on the next page.
Intangible assets in the amount of €81.7 million (previous year: €136.8 million) have been acquired in the context of the portfolio additions.

(2) Inventories

Inventories are composed of the following items:

in €m	12/31/2013	12/31/2012
Coal (Trading division)	14,0	62,6
Oil (Trading division)	0,0	4,8
Gas (Trading division)	57,8	122,3
Biomass (Trading division)	22,1	125,7
Gas (Supply division)	182,3	478,9
	276,2	**794,3**

The gas inventories disclosed in the Supply division are stored in gas storage facilities for the purpose of coordinated gas supplies to regional energy companies on the basis of the respective storage use agreements.

Fixed Asset Movement Schedule of RWE Supply & Trading GmbH for Financial Year 2013

in €m	Cost				Accumulated depreciation				Net book values	
	on 01/01/2013	Additions	Disposals	on 12/31/2013	on 01/01/2013	Depreciation for the financial year	Disposals	on 12/31/2013	on 12/31/2013	on 12/31/2012
Intangible assets										
Concessions acquired for a consideration, industrial property rights and similar rights and assets, and licenses in such rights and assets	150,3	88,6	-	238,9	38,0	100,3	-	138,3	100,6	112,3
Goodwill	373,8	-	-	373,8	224,3	24,9	-	249,2	124,6	149,5
	524,1	88,6	-	612,7	262,3	125,2	-	387,5	225,2	261,8
Tangible assets										
Technical equipment and machinery	0,0	-	0,0	-	0,0	-	0,0	-	-	0,0
Other equipment, factory and office equipment	10,4	10,5	-	20,9	3,5	3,0	-	6,5	14,4	6,9
Construction in process	-	0,1	-	0,1	-	-	-	-	0,1	-
	10,4	10,6	0,0	21,0	3,5	3,0	0,0	6,5	14,5	6,9
Financial assets										
Shares in affiliated companies	1.417,1	1,1	2,3	1.415,9	1.141,7	107,8	0,0	1.249,5	166,4	275,4
Other long-term equity investments	30,7	-	30,7	-	-	-	-	-	-	30,7
Other loans	23,8	0,4	4,1	20,1	-	-	-	-	20,1	23,8
	1.471,6	1,5	37,1	1.436,0	1.141,7	107,8	0,0	1.249,5	186,5	329,9
	2.006,1	**100,7**	**37,1**	**2.069,7**	**1.407,5**	**236,0**	**0,0**	**1.643,5**	**426,2**	**598,6**

0,0 minor amount
- non-existent

(3) Receivables and other assets

in €m	12/31/2013	of which due > 1 year	12/31/2012	of which due > 1 year
Trade receivables	958,8	0,00 €	1.464,5	0,0
Receivables from affiliated companies	2.184,9	0,0	2.740,6	0,0
of which from the shareholder	*230,2*	*0,0*	*0,0*	*0,0*
Receivables from other long-term investees and investors	0,0	0,0	296,3	0,0
Other assets	1.189,5	0,0	1.615,2	0,0
	4.333,2	**0,0**	**6.116,6**	**0,0**

Out of the receivables from affiliated companies, €2,175.3 million (previous year: €2,581.3 million) are trade receivables. Within other assets, collaterals in the amount of €296.7 million (previous year: €320.8 million) deposited with OTC trading partners as surety are recognized.

Furthermore, initial and variation margins for stock exchange transactions in the amount of €652.4 million (previous year: €909.1 million) are disclosed within other assets.

(4) Securities

The securities item relates to fixed-income securities. The securities serve as initial margins for stock exchange deals and are pledged to the responsible clearer.

(5) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and cash on hand. RWEST is to a very large extent included in the central cash management of RWE AG. RWE AG performs cash pooling centrally. The disposability of cash and cash equivalents in the amount of €2.8 million (previous year: €13.2 million) is limited through an agreement of pledge.

(6) Prepaid expenses and deferred charges

in €m	12/31/2013	12/31/2012
Prepaid rentals	9,1	10,0
Other	5,6	13,6
	14,7	**23,6**

(7) Shareholders' equity

in €m	12/31/2013	12/31/2012
Subscribed capital	15,0	15,0
Capital reserves	431,8	431,8
	446,8	**446,8**

Capital reserves also include amounts within the meaning of Section 272 (2) No. 1 HGB. A total amount subject to pay-out restrictions of €8.3 thousand results from the valuation at fair value of special purpose assets exceeding the acquisition cost; it is covered by disposable reserves.

(8) Provisions

in €m	12/31/2013	12/31/2012
Provisions for pensions and similar obligations	29,3	20,5
Tax provisions	19,8	20,6
Other provisions	882,9	1.161,4
of which for the Trading division	*244,9*	*263,4*
of which for the Supply division	*448,9*	*666,1*
of which for the Sales & Origination division	*37,2*	*79,4*
of which relating to personnel	*149,2*	*149,8*
of which other	*2,7*	*2,7*
	932,0	**1.202,5**

The fair value of pension commitments covered by reinsurance (asset value: €3.2 million; previous year: €2.3 million) has been offset in the provisions for pensions and similar obligations. The fair value was determined by the insurance carrier as of the balance sheet date.

The tax provisions of €19.8 million (previous year: €20.6 million) relate solely to the permanent establishment of RWEST in the UK.

The other provisions for the different business divisions consist mainly of provisions for contingent losses, provisions for valuation units, provisions for legal disputes, and for project risks.

The other provisions relating to personnel include mainly provisions for remuneration in arrears of €101.5 million (previous year: €106.9 million) and the provision for long-service awards of €3.6 million (previous year: €3.4 million).

(9) Liabilities

in €m	12/31/2013	of which falling due ≤ 1 year	of which falling due > 5 years	12/31/2012	of which falling due ≤ 1 year	of which falling due > 5 years
Liabilities to banks	**33,0**	33,0	-	**12,7**	12,7	-
Customer advances	**46,3**	46,3	-	**44,9**	44,9	-
Trade payables	**1.632,0**	1.632,0	-	**1.818,4**	1.818,4	-
Payables to affiliated companies	**2.063,2**	2.063,2	-	**4.022,6**	4.022,6	-
of which to the shareholder	***426,0***	*426,0*	-	***1.260,8***	*1.260,8*	-
Other liabilities	**495,2**	495,2	-	**539,8**	539,8	-
of which taxes	***35,9***	*35,9*	-	***121,2***	*121,2*	-
of which social security payables	***1,5***	*1,5*	-	***1,5***	*1,5*	-
	4.269,7	**4.269,7**	**-**	**6.438,4**	**6.438,4**	**-**

For certain trade payables, reservations of title to assets supplied in favor of the suppliers exist to the customary extent.

Out of the payables to affiliated companies, €933.4 million (previous year: €2,244.2 million) are trade payables. Furthermore, margin payments received of €283.5 million (previous year: €332.5 million) and collateral payments of €122.0 million (previous year: €140.5 million) are disclosed within other liabilities. The collateral payments have been provided to RWEST by OTC trading partners as surety.

(10) Deferred income

Deferred income includes payments received for future financial years and will be reversed in the respective financial years.

(11) Deferred taxes

The permanent establishment in the UK is subject to UK taxation and, therefore, not part of the domestic tax group of RWE AG. The UK tax balance sheet is mainly based on IFRS, and so temporary differences arise in the commercial balance sheet upon the determination of deferred taxes (comparison of balance sheet for tax purposes and commercial balance sheet). These differences are shown in the following table:

Tax rate in the UK 20%	Temporary difference	Deferred taxes (+ assets/- liabilities)
ASSETS		
A. Fixed assets		
II. Tangible assets		
1. Technical equipment and machinery	2,5	0,5
B. Current assets		
I. Inventories		
Merchandise	-3,8	-0,8
II. Receivables and other assets		
1. Trade receivables	657,5	131,5
4. Other assets	1.237,6	247,5
EQUITY AND LIABILITIES		
B. Provisions		
3. Other provisions	148,0	29,6
C. Liabilities		
5. Other liabilities	-1.816,2	-363,2
Net (deferred tax assets)	**225,6**	**45,1**

(Classification taken over from the balance sheet)

Furthermore, a negative tax result arises for the UK permanent establishment. This leads to additional deferred tax assets in the amount of €3.3 million, which have not been reported in the balance sheet.

(12) Contingent liabilities

The obligations incurred for the benefit of affiliated companies and third parties from guaranties need not to be carried as liabilities, because the affiliated companies and the third parties will probably be able to settle the underlying liabilities and recourse to the Company is not to be expected.
The contingent liabilities of €1,897.7 million (previous year: €2,168.1 million) relate to various guaranties, of which €728.0 million (previous year: €1,025.9 million) in favor of affiliated companies. A guaranty obligation in the amount of €23.2 million (previous year: €24.6 million), which is included in the aforesaid total amounts, exists for the pension obligations recognized on RWE AG's balance sheet.

Due to the transfer of certain retirement benefit obligations to RWE Pensionsfonds AG effected in 2007, the Company, as an employer, will be required by law to provide additional funds in case the pension fund should suffer from any future shortage of cover.

The permanent establishment of RWEST in the UK covers its pension commitments by pension funds. A provision has been set up for any potential future shortage of cover.

Furthermore, as a result of the split-off of the cogeneration operation pursuant to Section 133 UmwG in 2010, RWEST is for a period of five years jointly and severally liable for the liabilities arisen before the split-off of RWE Innogy GmbH as legal successor of RWE Innogy Cogen GmbH.

(13) Off-balance sheet transactions pursuant to Section 285 No. 3 HGB

There are no off-balance sheet transactions within the meaning of Section 285 No. 3 HGB as of the end of financial year 2013.

(14) Other financial obligations

As of the balance sheet date, RWEST has other financial obligations of €110.4 million (previous year: €441.0 million), of which €66.3 million (previous year: €128.7 million) vis-à-vis affiliated companies. €78.9 million (previous year: €87.0 million) relate to obligations in respect of real estate, whereas €31.5 million (previous year: €51.1 million) relate to IT obligations.

Furthermore, a profit and loss transfer agreement between RWEST and RWE Trading Services GmbH exists. Under this agreement, RWEST also undertakes to compensate any net loss for the year.

III. Notes to the Income Statement

We point to the fact that due to the requirement of compliance with commercial law provisions, fair value changes from pending energy trading contracts have not been reported in the annual financial statements. For further explanation, reference is made to the accounting and valuation policies for valuation units pursuant to Section 254 HGB.

Sales (positive overall result) and cost of materials respectively (negative overall result) show the trading margins from realized energy trading transactions and energy-related derivatives.

The respective gross amounts in the Trading division amount to €86,069.3 million (previous year: €109,966.2 million) for sales and to €86,277.0 million (previous year: €108,144.1 million) for the cost of merchandise within the cost of materials. This presentation is provided for the Trading division only.

(1) Sales

In the Trading division, the recognition of the trading margin results in €85,060.1 million lower sales in the financial year (previous year: €106,997.7 million lower) as compared with gross sales. Net recognition allows a more realistic presentation of the sales situation.

Sales (net of natural gas tax/electricity tax) in the amount of €14,379.7 million (previous year: €13,058.3 million) are shown broken down by energies in the following table:

in €m	2013	2012
Trading division	**1.009,1**	**2.968,5**
Electricity	911,2	2.442,5
Gas	0,0	47,2
Coal	0,0	0,0
Oil	97,9	478,8
Biomass	0,0	0,0
Geographical segmentation		
Germany	*615,6*	*1.573,3*
within the EU	*373,4*	*1.335,8*
in other European countries	*20,1*	*59,4*
Supply Division	**11.637,2**	**7.932,9**
Electricity	1,4	0,0
Gas	11.436,9	7.594,3
Coal	37,5	7,7
Oil	161,4	330,9
Geographical segmentation		
Germany	*4.440,7*	*4.863,6*
within the EU	*7.195,1*	*3.067,2*
in other European countries	*1,4*	*2,1*
Sales & Origination division	**1.733,4**	**2.156,9**
Electricity	1.303,3	1.814,1
Electricity tax	-59,3	-31,7
Gas	514,6	384,6
Natural gas tax	-36,7	-22,5
Coal	0,4	0,0
Heat	10,0	11,3
Water	1,1	1,1
Geographical segmentation		
Germany	*1.733,4*	*2.066,9*
within the EU	*0,0*	*90,0*
in other European countries	*0,0*	*0,0*
	14.379,7	**13.058,3**

Sales generated by the Supply and Sales & Origination divisions include aperiodic effects relating to previous years to a small degree.

Furthermore, a year-on-year comparison for the Supply division is impossible, because only 3 months from portfolio additions were included in financial year 2012, whereas sales from portfolio additions are now included for the entire year in financial year 2013.

(2) Other operating income

Other operating income of €243.3 million (previous year: €1,481.9 million) includes mainly income from various services in the amount of €16.3 million (previous year: €13.7 million) as well as income from the recharging of personnel expenses of €9.6 million (previous year: €13.9 million). Furthermore, the item comprises income from the reversal of provisions in the amount of €196.4 million (previous year: €1,130.5 million). The gross income from the translation of realized transactions in foreign currency and income from currency derivatives (in total €1,500.7 million; previous year: €2,006.0 million) is offset with the corresponding other operating expenses for reporting purposes.

(3) Cost of materials

The cost of materials in the Trading division of €1,216.9 million (previous year: €1,146.4 million) results from the negative trading margins of the following commodities: coal at €151.3 million (previous year: €931.0 million), biomass at €112.1 million (previous year: €215.4 million), and gas at €953.5 million (previous year: positive margin of €47.2 million).

The cost of materials in the Supply division of €11,495.0 million (previous year: €9,917.8 million) results from the cost prices for the procured gas in the amount of €11,170.1 million (previous year: €9,733.6 million) and the cost of purchased services of €324.9 million (previous year: €184.2 million).

The cost of materials in the Sales & Origination division of €1,203.1 million (previous year: €1,840.4 million) results from the cost prices for the procured energies in the amount of €1,149.9 million (previous year: €1,807.9 million) and the cost of purchased services of €53.2 million (previous year: €32.5 million).

The cost of materials in the Supply and Sales & Origination divisions include aperiodic effects relating to previous years to a small degree.

(4) Personnel expenses

On an annual average, RWEST employed a salaried staff of 1,289.6 (previous year: 1,308.3) including 173.5 (previous year: 191) senior executives (in each case shown as full-time equivalents (FTE)).

Personnel expenses are composed of:

in €m	2013	2012
Salaries	196,0	204,9
Social security, pension and other benefits	22,0	22,5
of which relating to pensions	*(7,0)*	*(7,9)*
	218,0	**227,4**

(5) Amortization and depreciation

Goodwill was regularly amortized by €24.9 million in the financial year (previous year: €25.0 million). The amortization period corresponds to the average life of the trading business acquired from RWE Npower in 2004.

Furthermore, the item includes depreciation of tangible fixed assets in the amount of €3.0 million (previous year: €0.8 million) and amortization of intangible assets in the amount of €100.3 million (previous year: €29.8 million). The amortization of contract values from portfolio additions of in total €88.7 million (previous year: €29.5 million) in accordance with the degree of realization is included.

(6) Other operating expenses

The other operating expenses of €317.0 million (previous year: €523.7 million) include exchange losses from transactions in foreign currency.

In the year under review, the balance from exchange gains and losses from transactions in foreign currency including currency derivatives is €36.1 million (previous year: other operating income of €235.0 million).

The corresponding gross expenses amount to €1,536.8 million (previous year: €1,771.0 million) in the financial year, whereas the corresponding gross income in the financial year is €1,500.7 million (previous year: €2,006.0 million).

Furthermore, the other operating expenses include mainly IT services, obligations with regard to real estate, expenses for temporary employment pay, and for the provision of personnel.

(7) Income from other long-term securities and loans

The insignificant income from long-term loans includes interest for residential building loans extended to employees.

(8) Other interest and similar income

Out of the other interest and similar income in the amount of €56.9 million (previous year: €70.6 million), €11.6 million (previous year: €42.9 million) related to affiliated companies.

(9) Write-down of long-term financial assets and current securities

The write-downs concern the decrease in value of two subsidiaries. Both companies have been written down to their lower fair value.

(10) Expenses from loss assumed

The expenses relate completely to the assumption of the loss generated by RWE Trading Services GmbH.

(11) Interest and similar expenses

Out of the interest and similar expenses in the amount of €91.4 million (previous year: €67.9 million), €69.2 million (previous year: €59.6 million) are attributable to affiliated companies. The amount includes the interest components from the retirement benefit obligation of €2.3 million (previous year: €1.5 million) as well as the interest components from other provisions amounting to €14.3 million (previous year: €0.3 million).

(12) Taxes on income

In the financial year, this item concerns the income tax allocation to be paid to the controlling company for the German permanent establishment of RWEST in the amount of €10.6 million (previous year: tax refund of €68.8 million) and the tax income of the UK permanent establishment of €0.6 million (previous year: tax expense of €17.4 million).

Due to the surplus of deferred tax assets (surplus of deferred tax assets also in the previous year) at the UK permanent establishment, again no deferred taxes were recognized this year.

(13) Income from loss transfer

The net loss for the financial year is compensated by RWE AG on the basis of a control and profit and loss transfer agreement.

IV. Other disclosures

(1) List of investments

	Coun-try	Headquarters	Shares Total	Equity in €m	Result in €m
RWE Trading Services GmbH *2	D	Essen	100,00%	5,7	-0,5
RWE Trading Americas Inc.	USA	New York City	100,00%	37,3	5,3
LYNEMOUTH POWER LIMITED *1	GB	Ashington	100,00%	9,8	-1,3
RWE Rhein Oel Limited *1	GB	London	100,00%	0,0	0,0
RWE Trading Services Ltd. *1	GB	Swindon	100,00%	1,0	0,0
RWE Supply & Trading Participations Limited	GB	London	100,00%	28,2	-375,3
RWE Supply & Trading Switzerland S.A.	CH	Geneva	100,00%	59,5	-26,2
RWE Supply & Trading Asia-Pacific Pte. Ltd.	SGP	Singapore	100,00%	6,4	4,4
RWE Principal Investments (3) Limited *1	CAN	Halifax	100,00%	3,8	0,0
RWE Principal Investments (4) Limited Partner *1	CAN	Halifax	100,00%	0,0	0,0
RWE Supply & Trading (India) Private Limited	IN	Mumbai	100,00%	-	-
PT Rheincoal Supply & Trading Indonesia	ID	Jakarta	100,00%	-	-
Blackhawk Mining LLC *1	USA	Lexington, KY	25,00%	100,8	-7,4

*1= Equity and result based on the annual financial statements for 2012

*2 = Result assumed by RWEST GmbH by virtue of a control and profit and loss transfer agreement

(2) Remuneration of Management and Supervisory Board

Disclosure of the remuneration paid to active and former managing directors is dispensed with pursuant to Section 286 (4) HGB. Pension obligations from direct commitments vis-à-vis former managing directors amount to €7,406 thousand.

As regards the **Supervisory Board**, the proportionate payments for its term of office are included in expenses at €140 thousand. As of the balance sheet date, employee loans amounting to €39 thousand were extended to members of the Supervisory Board.

(3) Auditor's fee pursuant to Section 285 clause 17 HGB

Disclosure of the auditor's fee is dispensed with. The information legally required to be disclosed is provided in the consolidated financial statements of RWE AG, which include RWEST.

(4) Transactions with related parties under Section 285 No. 21 HGB

There have been no major business transactions with related parties at other than arms' length conditions requiring disclosure.

(5) Transactions under Section 6b (2) EnWG

In general, RWEST concludes trading contracts only within the scope of its usual activity as an energy supplier and in the context of the procurement of fuels and emission rights with affiliated companies. The transactions within CAO are a business deal of substantial size outside the ordinary business activities with affiliated companies. In this respect, the positions inherent to the power plant park are at first offset with those of the sales portfolio and then managed with the proviso of optimizing the contribution margin, while at the same time complying with the risk limits set by RWE AG.

After deduction of the direct and indirect cost for the CAO organizational unit, the achieved gross electricity margin is passed on to the [power] generating companies RWE Power AG, RWE Generation SE, and (since 2013 also) to the Dutch conventional generating companies as well as to the German and (since 2013) the Dutch RWE Innogy.

In the aggregate, the group companies were paid approx. €400 million for the expired fiscal year.

(6) Members of the Supervisory Board

Shareholder representatives

Peter Terium
(Member of the Supervisory Board since March 28, 2013; Chairman of the Supervisory Board since April 9, 2013)
  Chief Executive Officer of RWE AG

Dr. Leonhard Birnbaum
(Member and Chairman of the Supervisory Board until March 27, 2013)
  Executive Board member of RWE AG until June 30, 2013

Paul Hagen
  Executive Board member of HSBC Trinkaus & Burkhardt AG

Martin Herrmann
  Chief Executive Officer, RWE East, s.r.o.

Erwin van Laethem
  Chief Executive Officer, Essent N.V.

Dr. Hans Bünting (since January 14, 2013)
  Chairman of the Board of Management of RWE Innogy GmbH

Dr. Michael Herrmann (since January 14, 2013)
  Head of Commodity Management of RWE AG

Employee representatives

Christopher Savage (Deputy Chairman of the Supervisory Board)

Chairman of the works council of RWEST

Markus Altegoer

Dipl. Ingenieur (graduate engineer), demand manager IT infrastructure and security

Nhu Hung Boc

Dipl.-Kaufmann (graduate in business administration), risk controller

(7) Management Members

Stefan Judisch

Chief Executive Officer

Dr. Markus Krebber

Chief Financial Officer

Alan Keith Robinson

Chief Commercial Officer (Commercial Asset Optimization)

Essen, February 7, 2014

The Management

Stefan Judisch

Dr. Markus Krebber

Alan Keith Robinson