The energy to lead

Annual Financial Statements as of December 31, 2012

RWE Supply & Trading GmbH

Balance Sheet of RWE Supply & Trading GmbH as of December 31, 2012

Assets	12/31/2012 € million	12/31/2011 € million
A. Fixed assets		
I. Intangible assets		
1. Purchased concessions, industrial property and similar rights and assets, and licenses in such rights and assets	112.3	5.3
2. Goodwill	149.5	174.5
	261.8	179.8
II. Tangible assets		
1. Technical equipment and machinery	0.0	0.0
2. Other equipment, operating and office equipment	6.9	8.1
	6.9	8.1
III. Long-term financial assets		
1. Shares in affiliated companies	275.4	387.6
2. Other long-term equity investments	30.7	21.7
3. Other loans	23.8	1.6
	329.9	410.9
B. Current assets		
I. Inventories		
Merchandise	794.3	693.8
II. Receivables and other assets		
1. Trade receivables	1,464.5	1,133.3
2. Receivables from affiliated companies (of which from shareholder €0.0 million; previous year: €2,076.9 million)	2,740.6	4,021.5
3. Receivables from other long-term investees and investors	296.3	313.8
4. Other assets	1,615.2	2,467.1
	6,116.6	7,935.7
III. Securities		
Other securities	541.3	705.1
IV. Cash funds	49.6	70.8
C. Prepaid expenses and deferred charges	23.6	52.5
	8,124.0	10,056.7

Shareholders' equity and liabilities	12/31/2012 € million	12/31/2011 € million
A. Shareholders' equity		
I. Subscribed capital	15.0	15.0
II. Capital reserve	431.8	431.8
	446.8	446.8
B. Provisions		
1. Provisions for pensions and similar obligations	20.5	18.4
2. Tax provisions	20.6	29.3
3. Other provisions	1,161.4	1,790.7
	1,202.5	1,838.4
C. Liabilities		
1. Bank loans and overdrafts	12.7	1.2
2. Customer advances	44.9	48.3
3. Trade payables	1,818.4	1,797.7
4. Payables to affiliated companies (of which to shareholders €1,260.8 million; previous year: €3,597.3 million)	4,022.6	5,182.9
5. Other liabilities (of which from taxes €121.2 million; previous year: €40.3 million) (of which social security payables €1.5 million; previous year: €1.4 million)	539.8	690.9
	6,438.4	7,721.0
D. Deferred income	36.3	50.5
	8,124.0	10,056.7

Income Statement of RWE Supply & Trading GmbH for the Period from January 1, 2012 to December 31, 2012

	2012 € million	2011 € million
1. Sales	13,112.5	11,845.4
2. Natural gas tax/electricity tax	-54.2	-69.6
3. Sales (net of natural gas tax/electricity tax)	13,058.3	11,775.8
4. Other operating income (of which from currency translation €235.0 million; previous year: €9.7 million)	1,481.9	124.6
5. Cost of materials		
a) Cost of purchased merchandise	12,482.3	12,415.6
b) Cost of purchased services	422.3	369.8
	12,904.6	12,785.4
6. Personnel expenses		
a) Salaries	204.9	190.2
b) Social security, pension and other benefits (of which relating to perisions €7.9 million; previous year: €11.1 million)	22.5	24.9
	227.4	215.1
7. Amortization, depreciation and write-downs of intangible and tangible assets	55.7	26.1
	55.7	26.1
8. Other operating expenses	523.7	246.2
9. Income from other long-term equity investments (of which from affiliated companies €6.1 million)	6.1	-
10. Income from other long-term securities and loans (of which from affiliated companies €0.0 million; previous year: €0.0 million)	0.0	0.0
11. Other interest and similar income (of which from affiliated companies €42.9 million; previous year: €65.6 million)	70.6	103.3
12. Write-down of long-term financial assets and securities classified as current assets	122.0	703.6
13. Cost of loss assumption	0.9	0.7
14. Interest and similar expenses (of which to affiliated companies €59.6 million; previous year: €106.8 million) (of which from interest accretion €1.8 million; previous year: €1.2 million)	67.9	113.2
15. Profit/loss on ordinary activities	**714.7**	**-2,086.6**
16. Taxes on income	-51.4	-49.5
17. Profit transferred/loss assumed on the basis of a profit and loss transfer agreement	766.1	-2,037.1
18. Net income for the year	**0.0**	**0.0**

0.0 small amount
- non existent

Notes to the Financial Statements of RWE Supply & Trading GmbH for the Financial Year from January 1 to December 31, 2012

RWE Supply & Trading GmbH (hereinafter referred to as "RWEST" has been registered in the commercial register of Essen since July 11, 2000 under the number HRB 14327. The Company is headquartered in Essen.

According to the opinion of Management, RWEST is subject to the rules of co-determination under the One-Third Employee Representation Act (*Drittelbeteiligungsgesetz* or DrittelbG), i.e. employees have a role in the economic and corporate decisions of a company and must therefore appoint a Supervisory Board. The composition of the Supervisory Board is governed by Sections 1 (1) Nos. 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 are shareholder representatives and one third are employee representatives. The Supervisory Board consists of nine members pursuant to Article 7 of the Articles of Association.

The annual financial statements for the past financial year were prepared in accordance with the provisions of the German Commercial Code (*HGB*), the German Limited Liability Companies Act (*GmbHG*) and the German Energy Act (*Energiewirtschaftsgesetz* – EnWG) as amended on December 20, 2012. Sole shareholder of RWEST is RWE AG, Essen, Germany. RWEST is included in the consolidated financial statements of RWE AG which are prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU. For this reason, RWEST is generally exempted from the duty to prepare 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 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 has been prepared using the nature of expense format.

I. Accounting policies

All portfolios acquired in financial year 2012 to combine the trading activities of other RWE group companies are called "portfolio additions" in the following.

Fixed assets

Intangible fixed assets are recognized at amortized cost. Software is amortized on a straight-line basis over three to five years. The intangible assets acquired as part of various portfolio additions (contractual values) are amortized over a period of between four and ten years in accordance with the degree of their realization. **Goodwill** recognized in fixed assets is amortized on a straight-line basis over its expected useful life of 15 years. It is the result of an acquisition in financial year 2004. Its expected useful life takes account of the assumptions made with respect to its continued existence, the term of some long-term contracts, the service period of the staff and the expected time it takes to integrate the related business divisions into RWEST.

Tangible assets are measured at cost less depreciation. They are depreciated using the straight-line method. The additions to tangible assets are depreciated on a precise month-to-month basis. Low-value assets costing up to €150 are fully written down in the year of acquisition. Assets costing between €150 and €1,000 are transferred to a collective item in accordance with Section 6 (2a) German Income Tax Act (*EStG*) and depreciated straight-line over five years. The item is generally of minor importance.

Financial assets are measured at the lower of cost or fair value. They are measured in accordance with the strict principle of lower of cost or market value. Within the scope of a currency hedge used for a foreign equity investment in foreign currency, several currency swaps were entered into on a rolling basis. The hedged item and the hedging instrument form a hedging relationship with no gain or loss being recognized. When terminating a swap, the positive or negative market price from spot rate changes is offset with the cost of the investment with no effect on profit or loss.

Current assets

Inventories are measured at cost year-to-date using the average cost method. The inventories are part of portfolio hedges; special measurement requirements apply.

Receivables and other assets are recognized at principal amounts. All identifiable individual risks and the general credit risk were accounted for by making the appropriate allowances. This applies equally to the margin and collateral payments which are included in other assets and account for the major part of this item. If the other assets consist of the fair value of pension commitments for which an insurance cover has been taken out, they are offset against the provisions for pensions and similar obligations.
Other assets also include carbon credit certificates which are recognized at cost. Lower values recognized on the reporting date due to lower net selling prices are accounted for as part of a portfolio.

Securities classified as current assets are recognized at the lower of cost or market value.

Cash funds are recognized at nominal amounts.

Prepaid expenses and deferred charges

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

Shareholders' Equity

Equity is recognized at its nominal value.

Provisions

The **provisions** provide appropriate cover for all identifiable risks and uncertain liabilities. They are recognized in the settlement amount required under prudent business judgment and taking into account estimated future cost increases.

Other provisions with more than one year to maturity are discounted at the last seven years' average market rate published by the German Bundesbank corresponding to their residual term.

Provisions for **pensions, concessionary allowances, partial retirement obligations and long-service awards** are recognized on the basis of actuarial computations applying the 2005G mortality tables of Klaus Heubeck – which take into account generation-dependent life expectancies – using the Projected Unit Credit Method. They were discounted at the last seven years' average market rate published by the German Bundesbank in October

2012 (previous year: October 2011), which is the market rate for the assumed residual time to maturity of 15 years (Section 253 (2) clause 2 HGB). This interest rate is at 5,06% annually (previous year: 5,13%). The other actuarial assumptions include annual salary and benefit increases.

Actuarial assumptions in percent	Salary increases		Benefit increases	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Pension provisions	2.75%	2.75%	1.75%	1.75%
Concessionary obligations	2.75%	2.75%	1.75%	1.75%
Partial retirement obligations	2.75%	2.75%	-	-
Long-service awards	2.75%	2.75%	-	-

To the extent an insurance cover has been taken out to protect the pension provisions, they were measured in accordance with Section 253 (1) No. 3 HGB.

Portfolio hedges under section 254 HGB

The physical and open derivative trading transactions carried out in the Trading business division and acquired as part of the portfolio additions are measured at fair value off-balance sheet as part of a macro hedge portfolio considering them as separate trading desks, inventories, if any, included. The macro hedges have the risk-compensating effect of combining individual groups of hedged items.

Physical and derivative transactions carried out in the Supply business division and acquired as part of portfolio additions are measured by way of a macro hedge of open gas procurement and sales contracts including the gas inventories and open gas forwards, coal and oil swaps.

The open physical and derivative transactions carried out in the Sales & Origination business division are measured by way of a macro hedge of hedged physical items and hedging transactions concluded.

These relationships in the form of macro hedges ensure that financial risks in the form of price risks from the commodities traded at the respective desks are hedged.

In addition, to hedge the currency risk from a foreign equity investment, currency swaps were entered into and accounted for as micro hedges.

The effective portions included in hedge accounting are reflected in the balance sheet under the net hedge presentation method, meaning that the gains or losses on the hedged items and hedging instruments attributable to each hedged risk, are not recognized.

The macro hedges used to hedge price risks which on the balance sheet date reflect a fair value of €1,746.1 million (previous year: €22.8 million) include assets at carrying amounts of €1,412.5 million (previous year: €1,093.2 million), liabilities at carrying amounts of €409.2 million (previous year: €151.2 million) and pending transactions with positive fair values of €13,109.6 million (previous year: €21,114.4 million) and negative fair values of €-12,214.1 million. (previous year: -21,863.8 million). The micro hedges used to hedge the currency risk of the foreign equity investment includes an asset (hedged item) at a carrying amount of €124.5 million (previous year: €174.2 million) and pending transactions at fair values of €-0.3 million (previous year: €-2.7 million).
The risks included in hedge accounting as of December 31, 2012 are summarized in the following table:

Category		Positive fair value of pending transactions	Negative fair value of pending transactions	Fair value of inventories	Net book values	
					Assets	Shareholders' equity and liabilities
		in €m	in €m	in €m	in €m	in €m
1.	Price risks	**13,109.6**	**-12,214.1**	**868.6**	**1,412.5**	**409.2**
1.1.	Electricity (Germany)	1,627.1	-1,480.5	12.1	76.8	41.5
1.2.	Electricity (UK)	940.3	-814.6	13.9	17.3	3.5
1.3.	CAO Power	4,331.6	-4,160.9	0.0	47.6	0.0
1.4.	Gas (Germany)	753.6	-956.2	511.2	868.9	117.0
1.5.	Gas (UK)	1,294.6	-814.6	147.1	162.7	245.2
1.6.	Oil	106.5	-81.8	19.9	25.0	0.0
1.7.	Coal	1,503.5	-1,453.9	54.2	65.7	0.0
1.8.	Biomass	26.8	0.0	107.2	126.0	0.0
1.9.	Emissions	305.2	-279.1	3.0	22.5	0.0
1.10.	Sales & Origination	2,220.3	-2,172.5	0.0	0.0	2.0
2.	Currency hedge	0.0	-0.3	0.0	124.5	0.0
3.	Total	13,109.6	-12,214.4	868.6	1,537.0	409.2

The electricity portfolio hedge (Germany) includes for the first time transactions of the carbon portfolio hedge, which was a separate portfolio hedge in the last financial statements. This rearrangement was made to bring the portfolio hedges, management reporting and risk control in accord. The portfolio hedges CAO Power, Gas (Germany) and Gas (UK) comprise contracts acquired as part of the portfolio additions. Due to the portfolio additions, two new portfolio hedges - Biomass and Emissions - were created.

On balance, the fair value of the pending transactions amounted to €895.5 million as of December 31, 2012 (previous year: €-749.4 million).

Macro hedging is intended to be undertaken for an indeterminate period of time. To determine the prospective effectiveness of macro hedges, a risk management system which is well documented, appropriate and operational, is available. The scope for action, responsibilities and controls are specified in a binding way in internal guidelines. Trading commodity derivatives is permitted within certain limits. These limits are defined by independent organizational units and monitored daily.

The central control variable in trading is the global Value at Risk (VaR) referring to the trading business and limited to an amount of €40.0 million. The values at risk are generally based on a confidence level of 95% with a holding period of one day assumed for the positions. This means that the probability of a loss over one day not exceeding the global VaR threshold is 95%. In financial year 2012 the global VaR was €6.3 million on average (previous year: €13.9 million), the maximum amount over one day was €13.3 million (previous year: €27.5 million). The risk analysis is not only based on the VaR, however. We continuously include extreme scenarios in our stress tests to determine the influence they could have on our liquidity and earnings position and react if risks become too high.
Macro hedge effectiveness is assessed at year-end by analyzing the fair value of each portfolio hedge. If the balance of the fair values of all transactions included is negative - taking into account any inventories included in the portfolio hedge and other carrying amounts already recognized in the balance sheet and resulting from transactions by the respective portfolio hedge in relation to portfolio additions and option premiums - a hedge provision is recognized for portfolio hedges. Any positive fair values remain unaccounted for in the balance sheet.

As of the balance sheet date, provisions for macro hedges were required in the total amount of €443.3 million (business division Supply: €443.3 million, previous year: €1,501.8 million; business division Trading: €0.0 million, previous year: €53.8 million).

The effectiveness of the above-described micro hedge is determined using the critical-term-match method. Under this method, the gains or losses on the measurement will probably completely match, since hedged items and hedging instruments are exposed to the same currency risks. There is no need to quantify the ineffectiveness of the hedging relationship when applying the critical-term-match method, since the ineffectiveness is immaterial. Hedging is intended for an indeterminate period of time, since assets without fixed maturities are hedged by means of a rolling strategy.

Liabilities

Liabilities are recognized at their settlement amount. Payments received on account are recognized separately. To enhance the clarity of presentation, they are not deducted from inventories.

Deferred income

Deferred income is reversed over the contractual period and credited to profit or loss.

Deferred taxes

Due to the fact that RWEST and RWE AG are a consolidated tax group, RWEST, being the controlled company, does not recognize any deferred taxes for the German activities.
As regards the British permanent establishment, deferred taxes are determined separately. Net tax charges are recognized on the liabilities side whereas the option to recognize tax benefits is not used. The tax rate in the UK for deferred taxes is 23% (previous year: 25%).

Income Statement

To increase the **reliability of the Company's results of operations,** sales revenue and cost of materials are recognized net for each commodity in the Trading business division, i.e. they are recognized up to the amount of their margins.
Sales and cost of materials are recognized gross in the divisions Supply and Sales & Origination, since this business deals with end customers.

Gains and losses on currency derivatives, which are part of portfolio hedges as well as other foreign exchange gains and losses are recognized net as other operating income or other operating expenses in all business operations.

The related gross values given as supplementary information are presented in the comments on the income statement.

Currency translation

Foreign currency transactions are generally recognized at the market or hedging price valid at the time of initial recording and at the middle spot rate on the balance sheet date. The losses on foreign exchange gains or losses on the balance sheet date are recognized in the income statement, unrealized foreign exchange gains are recognized in profit or loss only, if the underlying assets or liabilities have residual terms one year or less. Foreign currency risks are hedged as part of of central cash and foreign currency management of the RWE Group and the treasury department of RWE AG by rate hedging transactions in the respective currency of the commodity involved.

II. Balance sheet disclosures

Due to the portfolio additions mentioned, the amounts stated in intangible assets, inventories, other assets and provisions are not comparable to the previous year's figures. The corresponding acquisition cost is additionally disclosed in the comments on the respective balance sheet accounts.

(1) Fixed assets

As regards the movements in fixed assets reference is made to the fixed-asset movement schedule of RWE Supply & Trading GmbH on the next page.
In the course of the portfolio additions, intangible assets of €136.8 million were acquired.

(2) Inventories

Inventories are composed as follows:

in €m	12/31/2012	12/31/2011
Coal (Trading division)	62.6	248.1
Oil (Trading division)	4.8	45.4
Gas (Trading division)	122.3	125.0
Biomass (Trading division)	125.7	-
Gas (Supply division)	478.9	275.3
	794.3	**693.8**

The gas inventories recognized in the Supply business division are stored in gas storage facilities in accordance with the respective storage agreements concluded to provide co-ordinate gas supplies for the regional energy companies.
In the course of the portfolio additions, gas inventories of €218.5 million were acquired in the Supply business division. In addition, RWEST acquired biomass inventories for €44.1 million.

Fixed-asset movement scheduled of RWE Supply & Trading GmbH

in financial year 2012

in €m	Cost				Accumulated depreciation, amortization and write-downs				Net book values	
	on 1/1/2012	Additions	Disposals	on 12/31/2012	on 1/1/2012	A/D/write-downs of financial year	Disposals	on 12/31/2012	on 12/31/2012	on 12/31/2011
Intangible assets										
Purchased concessions, industrial property and similar rights and assets and licenses in such rights and assets	13.5	136.8	0.0	150.3	8.2	29.8	0.0	38.0	112.3	5.3
Goodwill	373.8	-	-	373.8	199.3	25.0	-	224.3	149.5	174.5
	387.3	136.8	-	524.1	207.5	54.8	0.0	262.3	261.8	179.8
Tangible assets										
Technical equipment and machinery	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other equipment, operating and office equipment	11.8	0.2	1.6	10.4	3.7	0.9	1.1	3.5	6.9	8.1
	11.8	0.2	1.6	10.4	3.7	0.9	1.1	3.5	6.9	8.1
Financial assets										
Shares in affiliated companies	1,423.1	15.0	21.0	1,417.1	1,035.5	121.8	15.6	1,141.7	275.4	387.6
of which included in portfolio hedges § 254 HGB	*549.0*	-	0.9	*548.1*	*374.8*	*48.8*	-	*423.6*	*124.5*	*174.2*
Other long-term equity investments	21.7	9.0	-	30.7	-	-	-	0.0	30.7	21.7
Other loans	1.6	22.5	0.3	23.8	-	-	-	0.0	23.8	1.5
	1,446.4	46.5	21.3	1,471.6	1,035.5	121.8	15.6	1,141.7	329.9	410.8
	1,845.5	183.5	22.9	2,006.1	1,246.7	177.5	16.7	1,407.5	598.6	598.7

0.0 small amount
- non existent

(3) Receivables and other assets

in €m	12/31/2012	of which due > 1 year	12/31/2011	of which due > 1 year
Trade receivables	1,464.5	0.0	1,133.3	0.0
Receivables from affiliated companies	2,740.6	0.0	4,021.5	0.0
of which from shareholder	*0.0*	*0.0*	*2,076.9*	*0.0*
Receivables from other long-term investees and investors	296.3	0.0	313.8	0.0
Other assets	1,615.2	0.0	2,467.1	0.0
	6,116.6	**0.0**	**7,935.7**	**0.0**

Of the receivables from affiliated companies €2.581,3million (previous year: €1.652,9 million) are trade receivables. Within other assets, collaterals amounting to €320,8 million (previous year: €573,9 million) are recognized, which were deposited with the OTC trading partners.

In addition, initial and variation margins from stock exchange trading are recognized within other assets in the amount of €909,1 million (previous year: €1.461,8 million).

(4) Securities

The securities relate to fixed-income securities. The securities are used as initial margins in stock exchange trades and are pledged with the responsible clearer.

(5) Cash funds

Cash funds are credit balances with banks and cash on hand. RWEST is included in the central cash management system of RWE AG to its largest extent. RWE AG pools liquidity centrally. Of the cash funds, €13,2 million (previous year €3,8 million) have limited availability due to a pledge agreement signed.

(6) Prepaid expenses and deferred charges

in €m	12/31/2012	12/31/2011
Prepaid rental	10.0	10.9
Other	13.6	41.6
	23.6	**52.5**

(7) Shareholders' equity

in €m	12/31/2012	12/31/2011
Subscribed capital	15.0	15.0
Capital reserve	431.8	431.8
	446.8	446.8

The capital reserve includes amounts within the meaning of Section 272 (2) No. (1) HGB.

(8) Provisions

in €m	12/31/2012	12/31/2011
Provisions for pensions and similar obligations	20.5	18.4
Tax provisions	20.6	29.3
Other provisions	1,161.4	1,790.7
of which for Trading division	*263.4*	*70.0*
of which for Supply division	*666.1*	*1,511.5*
of which for Sales & Origination division	*79.4*	*87.2*
of which relating to personnel	*149.8*	*121.4*
of which other	*2.7*	*0.6*
	1,202.5	1,838.4

The fair value of pension commitments for which an insurance cover has been taken out (asset value: €2.3 million; previous year: €2.0 million) was offset in the provisions for pensions and similar obligations. The fair value was determined by the insurance carrier as of the balance sheet date.

All tax provisions amounting to €20,6 million (previous year: €29,3 million) relate to the British permanent establishment of RWEST.

The other provisions recognized for the different business divisions mainly comprise provisions for expected losses, provisions for portfolio hedges, and provisions for legal disputes and project risks.
The other provisions for personnel obligations mainly include provisions for remuneration in arrears of €106.9 million (previous year: €96,8 million) and the provision for long-service awards of €3.4 million (previous year: €4,4 million).

(9) Liabilities

in €m	12/31/2012	of which due ≤ 1 year	of which due > 5 years	12/31/2011	of which due ≤ 1 year	of which due > 5 years
Bank loans and overdrafts	12.7	12.7	-	1.2	1.2	-
Customer advances	44.9	44.9	-	48.3	48.3	-
Trade payables	1,818.4	1,818.4	-	1,797.7	1,797.7	-
Payables to affiliated companies	4,022.6	4,022.6	-	5,182.9	5,182.9	-
of which to shareholder	*1,260.8*	*1,260.8*	-	*3,597.3*	*3,597.3*	-
Other liabilities	539.8	539.8	-	690.9	690.9	-
of which taxes	*121.2*	*121.2*	-	*40.3*	*40.3*	-
Of which social security payables	*1.5*	*1.5*	-	*1.4*	*1.4*	-
	6,438.4	6,438.4	-	7,721.0	7,721.0	-

Of the liabilities to affiliated companies, €2.244,2 million (previous year: €679,3 million) are trade payables. The other liabilities also include margin payments received in the amount of €332,5 million (previous year: €409,1 million) and collateral payments of €140,5 million (previous year: €111,5 million). RWEST has received the collateral payments as suretyship from OTC trading partners.

(10) Deferred income

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

(11) Deferred tax

The British permanent establishment is subject to British taxation and is therefore not part of the domestic consolidated tax group of RWE AG. The British tax accounts are mainly based on IFRSs. Thus, when determining deferred taxes in the financial statements (by comparing the tax base with the amounts in the balance sheet), temporary differences arise which are presented in the following overview (the balance sheet format is identical to that in the balance sheet):

Tax rate in UK 23%	Temporary difference	Deferred taxes (+ asset/- liabilities)
ASSETS		
A. Fixed assets		
II. Tangible assets		
1. Technical equipment and machinery	3.2	0.7
B. Current assets		
I.Inventories		
Merchandise	3.6	0.8
II. Receivables and other assets		
1. Trade receivables	195.8	45.0
4. Other assets	1,950.7	448.7
EQUITY AND LIABILITIES		
B. Provisions		
3. Other provisions	127.2	29.2
C. Liabilities		
5. Other liabilities	-2,074.1	-477.0
Net (deferred tax assets)	**206.4**	**47.4**

(12) Contingent liabilities

The obligations incurred for the benefit of affiliated companies and to third parties from warranty agreements need not be recognized, since the affiliates and the third parties will probably be able to settle the underlying liabilities. Therefore, they are not expected to become due.

The contingent liabilities of €2.168,1 million (previous year: €1.919,3 million) relate to various warranty obligations, of which €1.025,9 million (previous year: €967,5 million) in favor of affiliated companies. For the pension obligations recognized in the balance sheet of RWE AG, a warranty provision was set up in the amount of €24,6 million (previous year: €22,1 million), which is included in the above stated aggregate amounts.

Due to the transfer of certain retirement benefit obligations made in financial year 2007 to the RWE Pensionsfonds AG, the Company, as an employer, will be required by law to pay additional funds in case the fund might suffer from a shortfall of assets.

The RWEST permanent establishment in the UK covers its pension commitments by pension funds. A potential shortfall in assets is covered by a provision.

As a result of splitting off the cogeneration operation in accordance with Section 133 UmwG, RWEST is held jointly and severally liable for five years for the liabilities of RWE Innogy Cogen GmbH, which arose before the Cogeneration operation was split off.

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

There were no off-balance sheet transactions as set out in Section 285 No. 3 HGB by the end of financial year 2012.

(14) Other financial commitments

As of the balance sheet date, RWEST incurred other financial obligations amounting to €441.0 million (previous year: €1,049.00 million), of which €128.7 million (previous year: €146.3 million) were due to affiliated companies. Most of them relate to real estate obligations (€87.0 million; previous year: €49.4 million) and IT obligations (€51.1 million; previous year: €96.9 million).

Furthermore, a profit transfer agreement has been signed between RWEST and RWE Transitions Services GmbH. Under this agreement, RWEST undertakes to offset any net loss for the year.

(15) Disclosures in accordance with Section 285 No. 19 HGB

To cover risks from future supplies, credit default swaps were entered into in a nominal volume of €378.1 million (previous year: €119.8 million). Their market value as of the reporting date is €-1.9 million (previous year: €3.1 million).

III. Income statement disclosures

We point to the fact that, as German accounting principles must be observed, fair value changes from pending energy trading contracts were not recognized in the annual financial statements. For further explanations reference is made to the accounting policies for portfolio hedges pursuant to Section 254 HGB.

Sales revenue (positive overall result) and/or cost of materials (negative overall result) include the trading margins from energy trading contracts realized and energy-related derivatives.

The respective gross amounts in the Trading division in relation to sales revenue amount to €109,966.2 million (previous year: €84,561.8 million) and in relation to cost of purchased merchandise within cost of materials €108,144.1 million (previous year: €83,396.3 million). This presentation is made for the Trading division only.

(1) Sales

In the Trading division, the recognition of the trade margin in the financial year results in sales falling below gross sales by €106,997.7 million in the financial year and by €83,006.9 million in the previous year. The recognition of net amounts presents sales in a more realistic form.

Sales (net of natural gas tax/electricity tax) of €13,058.3 million (previous year: €11,775.8 million) are broken down by energies as follows:

in €m	2012	2011
Trading division	**2,968.5**	**1,554.9**
Electricity	2,442.5	1,113.9
Gas	47.2	0.0
Coal	0.0	0.0
Oil	478.8	441.0
Biomass	0.0	0.0
Geographical segmentation		
Germany	*1,573.3*	*808.5*
within the EU	*1,335.8*	*699.7*
other European countries	*59.4*	*46.6*
Supply division	**7,932.9**	**8,064.7**
Gas	7,594.3	7,507.4
Coal	7.7	52.2
Oil	330.9	505.1
Geographical segmentation		
Germany	*4,863.6*	*5,403.3*
within the EU	*3,067.2*	*2,659.7*
other European countries	*2.1*	*1.6*
Sales & Origination division	**2,156.9**	**2,156.2**
Electricity	1,814.1	1,682.2
Electricity tax	-31.7	-33.3
Gas	384.6	526.1
Natural gas tax	-22.5	-36.3
Heat	11.3	16.2
Water	1.1	1.3
Geographical segmentation		
Germany	*2,066.9*	*2,127.3*
within the EU	*90.0*	*28.9*
other European countries	*0.0*	*0.0*

In the Supply division, the item includes €-8.1 million (previous year: €55.0 million) sales revenue from previous years' invoice adjustments.

(2) Other operating income

Other operating income of €1,481.9 million (previous year: €124.6 million) includes foreign exchange gains.
In the reporting year, the balance of foreign exchange gains and losses including foreign currency derivatives amounts to €235.0 million (previous year: €9.7 million).

Respective gross income amounts to €2,006.0 million (previous year: €1,543.4 million). The related gross expenses amount to €1,771.0 million (previous year: €1,533.7 million).
In addition, other operating income includes income from various services in the amount of €13.7 million (previous year: €11.6 million) and income from personnel costs charged on in the amount of €13.9 million (previous year: €14.2 million). Furthermore, income from the reversal of provisions is included in this item in the amount of €1,130.5 million (previous year: €15.2 million). Income from the reversal of provisions includes the reversal of the provision for the gas portfolio hedge (Supply business division) at €1,058.5 million (previous year: €0.0 million) and the reversal of the carbon and oil portfolio hedges (both Trading business division) at €24.4 million (previous year: €0.0 million) and €29.4 million (previous year: €0.0 million) respectively.

(3) Cost of materials

Cost of materials of €1,146.4 million (previous year: €389.3 million) in the Trading division was incurred as a result of negative trading margins of the commodities coal (€931.0 million; previous year: €0.0 million), and biomass (€215.4 million; previous year: €0.0 million).

Cost of materials of €9,917.8 million (previous year: €10,585.4 million) in the Supply division is the result of the cost price for gas procurements in the amount of €9,733.6 million (previous year: €10,358.2 million) and the cost of purchased services amounting to €184.2 million (previous year: €177.4 million). This item includes expenses from gas invoice corrections for previous years in the amount of €-5.9 million (previous year: €42.6 million). In addition, several price re-negotiation agreements were terminated in 2012 in the Supply division. These resulted in one-time payments of €643.1 million for previous years (approximately €280.8 million) and the current financial year.

Cost of materials in the Sales & Origination division of €1,840.4 million (previous year: €1,810.7 million) is the result of the cost price for energy procurements in the amount of

€1,807.9 million (previous year: €1,668.1 million) and the cost of purchased services amounting to €32.5 million (previous year: €142.6 million).

(4) Personnel expenses

On an annual average, RWEST employed salaried staff of 1,308.3 people (previous year: 1,296) including 191 senior executives (previous year: 181). The figures were converted into full-time equivalents.

Personnel expenses as recorded in the income statement are as follows:

in €m	2012	2011
Salaries	204.9	190.2
Social security, pension and other benefits	22.5	24.9
of which relating to pensions	*(7.9)*	*(11.1)*
	227.4	215.1

(5) Amortization, depreciation and write-downs

Goodwill was amortized by €25.0 million (previous year: €24.9 million) in the financial year. The amortization period corresponds to the average life of the trading business acquired from RWE Npower in 2004.
Furthermore, this item includes depreciation of tangible assets by €0.8 million (previous year: €1.2 million) and amortization of intangible assets by €29.8 million (previous year: €0.0 million). Included is the amortization of contractual values from portfolio additions of a total of €29.5 million by the degree of their being realized.

(6) Other operating expenses

The other operating expenses in the amount of €523.7 million (previous year: €246.3 million) mainly include additions to provisions for gas supply, IT services, real-estate obligations, labor costs for temporary employees and transfer of personnel.

The gross expenses resulting from the translation and realization of foreign currency transactions and the expenses from foreign currency derivatives (an aggregate of €1,771.0 million; previous year: €1,533.7 million) are offset with the related other operating income for recognition purposes.

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

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

(8) Other interest and similar income

Of the interest and similar income amounting to €70.6 million (previous year: €103.3 million), €42.9 million (previous year: €65.6 million) was accounted for by affiliated companies.

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

Of the write-downs, €73.0 million (previous year €622.6 million) are mainly attributable to the write-down of the investment in RWE Supply & Trading Switzerland S.A. and €48.8 million (previous year: €81.0 million) are attributable to the write-down of RWE Supply & Trading Participations Limited. Both companies were written down to their lower fair value.

(10) Expenses from losses assumed

The expenses relate completely to the assumption of losses from the RWE Trading Services GmbH.

(11) Interest and similar expenses

Of the interest and similar expenses amounting to €67.9 million (previous year: €113.2 million), €59.6 million (previous year: €106.8 million) are accounted for by affiliated companies. Included are the interest components from retirement benefit obligations in the amount of €1.5 million (previous year: €0.9 million) and the interest components from other provisions in the amount of €0.3 million (previous year: €0.3 million).

(12) Taxes on income

In the financial year, this item reflects the income tax allocation refunded by the controlling company for the German permanent establishment of RWEST in the amount of €68.8 million (previous year: €36.8 million). It also reflects the tax expense of the British permanent establishment amounting to €17.4 million (previous year: €0.9 million). Since deferred tax assets were in excess of deferred tax liabilities in the British permanent establishment this financial year, no deferred taxes were recognized. In the previous year, deferred tax liabilities amounting to €11.8 million were reversed in the British permanent establishment.

(13) Profit transferred on the basis of a profit and loss transfer agreement

Net income was transferred to RWE AG on the basis of a control and profit transfer agreement.

IV. Other disclosures

(1) List of investments

	Country	Head office	Shares Total	Equity in €m	Net income/loss in €m
RWE Trading Services GmbH	D	Essen	100.00%	5.7	-0.8 *4
RWE Trading Americas Inc.	USA	New York City	100.00%	33.7	13.6
LYNEMOUTH POWER LIMITED	GB	Swindon	100.00%	0.0	0.0 *1
RWE Rhein Oel Limited	GB	London	100.00%	0.0	0.0 *1
RWE Trading Services Ltd.	GB	Swindon	100.00%	0.9	0.0 *1
RWE Supply & Trading Participations Limited *3	GB	London	100.00%	424.0	32.9
Excelerate Energy LP *2	USA	The Woodlands	49.50%	-9.2	-88.9
Excelerate Energy LLC *2	USA	The Woodlands	50.00%		
RWE Supply & Trading Switzerland S.A.	CH	Geneva	100.00%	41.6	-263.3 *1
RWE Supply & Trading Asia-Pacific Pte. Ltd.	SGP	Singapore	100.00%	6.2	6.2
Caspian Energy Company Ltd.	GB	Swindon	50.00%	0.0	0.0 *1
Nabucco Gas Pipeline International GmbH *1	AT	Vienna	17.38%	6.5	-41.4 *1

*1= Annual Financial Statements 2011

*2= Under US law, the companies are not required to prepare single-entity financial statements. Excelerate Energy LP is required to prepare consolidated financial statements; the above-stated amounts relate to the consolidated financial statements 2011.

*3= IFRS figures as of 12/31/2012 less proportionate consolidation of the Excelerate Group

*4= Result was transferred to RWEST GmbH on the basis of a control and profit transfer agreement

*5= Annual Financial Statements 2007

(2) Remuneration of Management and the Advisory Board

Management was paid a total remuneration of €6,046 thousand in financial year 2012. This remuneration includes variable pay components of €3,588 thousand and 159,933 performance shares as part of a long-term incentive program (Beat tranche 2012) at a market value upon issue of €1,065 thousand. The Company chose not to disclose the remuneration of former managing directors in accordance with Section 286 (4) HGB. The direct pension commitments to former managing directors amount to €4,294 thousand.

A provision of €70 thousand was recognized for the proportionate payments to the **Supervisory Board** in relation to its office term. Employee loans of €12 thousand were granted to Supervisory Board members as of the balance sheet date.

(3) Auditor's fee in accordance with Section 285 No. 17 HGB

The auditor's fees were not disclosed. The legally required disclosures are reflected in the consolidated financial statements of RWE AG which include RWEST.

(4) Related party disclosures in accordance with Section 285 No. 21 HGB

There were no major related-party transactions carried out at other than arm's length conditions, which must be disclosed.

(5) Transactions in accordance with Section 6b (2) EnWG

In general, RWEST concludes trading agreements with affiliated companies only within the scope of its customary activity as an energy supplier and within the scope of procuring fuels and emission rights. One larger transaction outside the ordinary course of business with affiliated companies is the remuneration as part of the Commercial Asset Optimisation (CAO). Under the agreement signed between RWEST and RWE Power AG, CAO is responsible for managing the current positions of the group companies RWE Power AG, RWE Vertrieb AG and RWEST for the purpose of optimizing contribution margins and risks. Within the scope of this CAO agreement, RWEST paid €762.1 million (previous year: €407.3 million) to RWE Power AG as a compensation in financial year 2012.

(6) Members of the Supervisory Board

Shareholder representatives

Dr. Leonhard Birnbaum (Chairman of the Supervisory Board)
Executive Board member of RWE AG

Paul Hagen
Executive Board member of HSBC Trinkaus & Burkhardt AG

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

Erwin van Laethem (since March 1, 2012)
Chief Executive Officer, Essent N.V.

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

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

Dr. Johannes Lambertz (until December 31, 2012)
former Chief Executive Officer of RWE Power AG

Volker Beckers (until December 31, 2012)
former Chief Executive Officer, RWE Npower plc.

Peter Terium (until February 29, 2012)
Chief Executive Officer of RWE Power AG

Employee representatives

Christopher Savage (Deputy Chairman of the Supervisory Board)
Chairman of the general works council of RWEST

Markus Altegoer
Dipl.-Ingenieur (engineer), demand manager IT infrastructure and security

Nhu Hung Boc
Dipl.-Kaufmann (merchant), risk control

(7) Members of Management

Stefan Judisch

Chairman of Management

Chief Executive Officer

Dr. Markus Krebber (since November 1, 2012)

Chief Financial Officer

Alan Keith Robinson

Chief Commercial Officer (Commercial Asset Optimisation)

Dr. Bernhard Günther (until October 31, 2012)

former Chief Financial Officer

Richard Bowes Lewis (until July 6, 2012)

former Chief Commercial Officer (Sales & Origination)

Dr. Peter Kreuzberg (until July 6, 2012)

former Chief Commercial Officer (Trading)

Essen, February 6, 2013

The Management

Stefan Judisch

Dr. Markus Krebber

Alan Keith Robinson

RWE

The energy to lead

Management Report

of RWE Supply & Trading GmbH

for the financial year from

January 1, 2012 to December 31, 2012

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Management Report

1. Business performance and economic environment

RWE Supply & Trading GmbH, Essen, Germany, (RWEST) has been registered in the commercial register of Essen under number HRB 14327 since July 11, 2000, and is classified as a large corporation within the meaning of sections 267(3) and (4) of the *Handelsgesetzbuch* (HGB – German Commercial Code).

RWEST is responsible for the RWE Group's energy trading and gas midstream business. It also supplies electricity and gas to a number of large German industrial and business customers. The Company does not engage in any of the activities listed under section 6b(3) sentence 1 of the *Gesetz über die Elektrizitäts- und Gasversorgung* (Energiewirtschaftsgesetz, EnWG – Energy Industry Act).

Apart from the trading in electricity, gas and emission rights at the Company's headquarters, the United Kingdom locations additionally look after "oil" and "gas" (London) and "United Kingdom electricity" and "coal" (Swindon).

RWE Supply & Trading GmbH as part of the RWE Group

RWE Aktiengesellschaft, Essen, Germany (RWE AG), with whom a control and profit and loss transfer agreement exists, is the sole shareholder of RWEST. RWEST is included in the consolidated financial statements prepared by RWE AG, Essen, Germany.

The Company also has a number of operating subsidiaries. The main subsidiaries are located in the following places/countries:

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

Other RWE Group companies were allocated to the trading business or the gas midstream business in financial year 2012. They are not directly affiliated with RWEST under company law. They are located in the following places/countries:

- 's-Hertogenbosch/The Netherlands
- Prague/Czech Republic

Together with RWEST as the management company and its direct subsidiaries, these formed the Trading/Gas Midstream segment within the RWE Group.

RWEST maintains the following branches in Germany and abroad:

Branches	Sales net of electricity/natural gas tax in €m	No. of employees as of: 12/31/2012 FTE
Essen/Federal Republic of Germany	60,140.8	774.2
Swindon/United Kingdom* London/United Kingdom*	83,372.7	527.6
Prague/Czech Republic	-	-
Kosice/Slovakia	-	-
Dubai/United Arab Emirates	-	-
Helsinki/Finland	-	-
Netting of internal transfer pricing and netting of trading sales	- 130,401.0	
Total RWE Supply & Trading GmbH	**13,112.5**	**1,301.8**

*= administered together

Economic environment

Economy

According to first estimates, global economic output rose in 2012 to 2.3% above prior-year levels. In contrast, the eurozone gross domestic product, particularly due to the uncertainties arising from the sovereign debt crisis, looks to have decreased by approx. 0.5% in the past year. Economic output in Germany, the largest national economy in the currency area, is likely to have risen year-on-year by around 1%. Private consumption in particular exerted a stabilizing influence.

Weather

Weather plays a key role in the demand for energy and in the generation of renewables. In the past year, temperatures in Germany were below those of the previous year, although they were roughly in line with the long-term average. Wind levels in 2012 were slightly below the previous year and the long-term average. Insolation during the year was also lower than in the previous year, though it slightly exceeded the long-term average.

Demand for electricity and gas

Currently available data indicates that electricity consumption in Germany declined in 2012 by roughly 1%. Subdued industrial production played a key role in this. The demand for gas lay slightly above the previous year's level with an estimated increase of 1%. The reason for the increase may be mainly attributable to the lower temperatures, which also overcompensated for the effect of the lesser use of gas in electricity generation.

Electricity prices

Electricity prices on the EEX wholesale energy exchange fell markedly in 2012 compared to the previous year and reduced by 17% to around €43/MWh (base-load) and by around 15% to just below €49/MWh (peak-load). This is mainly attributable to the reduction in hard coal and emission certificate prices and the increasing amounts of electricity being fed into the grid from wind and solar power installations. Retail business performance in the past year was inconsistent: Residential customers had to pay around 3.5% more on average, whereas industrial customers paid nearly 1.5% less.

Gas prices

At €29/MWh, the price for gas imports to Germany in 2012 was just over 10% higher than a year ago. This is primarily attributable to higher oil prices in 2011/12 compared to 2010/11, which were the basis for gas price formulas at that time. With an average of about €25/MWh, gas price quotations on the Dutch spot market, which also play an important role for the German market, were around 10% above the corresponding level for the previous year. Retail prices performed accordingly: Residential tariffs rose by approximately 5%, whereas prices for industrial customers increased by about 12%.

Oil and coal prices

The 2012 annual average price for internationally-traded Brent crude oil was $112/bbl and thus approximately at the same level as in 2011. Factors driving up prices such as the sanctions against Iran and the political instability in the Middle East were offset by moderating influences such as the economically subdued demand and rising production in non-OPEC states – especially in the USA. Coal was traded at around $93/t (API 2) on the European spot market and therefore reduced by around 24%. On first estimates, the *Bundesministerium für Wirtschaft und Ausfuhrkontrolle* (BAFA – Federal Office of Economics and Export Control) cross-border price for coal being imported into Germany reduced by near 10% to around €93/t HCU.

CO_2 certificate price

Under the European emission trading system, companies generating electricity from fossil fuels must acquire certificates equating to the level of CO_2 emitted. Due to subdued industrial production resulting from market conditions and increasing electricity generation from renewable energy sources, the price of EUAs (EU allowances) fell in 2012 to around €7.4t/CO_2, which is around 43% down on the previous year.

Employees

As of the balance sheet date, there were 1,301.8 (employee equivalents) employees at RWEST.

2. Significant events

In the reporting period

The reporting year was primarily characterized by our acquisition of significant business activities of affiliated companies in the Netherlands and Switzerland. The aim was to concentrate certain trading activities into RWEST. Assets, liabilities and executory contracts were measured at fair value and transferred in singular succession at the appropriate purchase prices (hereinafter referred to as "portfolio additions").

Impairment tests of our interests in affiliated companies highlighted two cases where a write-down was required.

It was possible in the reporting year to successfully conclude most of the long-term gas procurement contract price renegotiations. The results from these renegotiations have been fully incorporated into the annual financial statements.

As a trading company in the energy sector, we are, as part of our ordinary business activities, involved in a manageable number of other legal and arbitration proceedings, for which we have set up balance sheet provisions.

Through our equity investment in Lynemouth Power Limited, 100% of a coal-fired power station in Lynemouth/United Kingdom was acquired in the reporting year. We also acquired a 25% interest in Blackhawk Mining LLC in Martin/Kentucky (USA) through our equity investment in RWE Trading Americas Inc.

As part of the SPAR company program, company structures and business processes were analyzed and duplicate functions identified. Employees were informed of the results of this analysis. Thereafter, redundancy offers were made to a certain set of employees. A balance sheet provision was set up for this.

Post balance sheet

On January 23, 2013, legal proceedings with a value in dispute of €59.0 million were decided in favor of RWEST at the last instance of the Federal Court of Justice. The opinion of the court is not yet available; the effects will be reported in the 2013 annual financial statements.

There were no other significant post balance sheet events.

3. Net assets, financial position and results of operation

General information

We draw attention to the fact that fair values of executory energy trading contracts and changes in these fair values during the financial year are not recognized in the annual financial statements due to the mandatory requirement to comply with the provisions of German commercial law. The net assets and the results of operation presented in the income statement prepared in accordance with German commercial law can therefore in certain circumstances differ markedly from the amounts determined for internal management purposes. For information on fair values that have not been recognized in the balance sheet, please refer to the section "Portfolio hedges under section 254 of the HGB" in the notes to the annual financial statements.

Sales (positive overall result) and/or cost of materials (negative overall result) include the trading margins from energy trading contracts realized and from energy-related derivatives.

Gains or losses on foreign exchange transactions including currency derivatives are reported net in other operating income or other operating expenses.

Furthermore, for explanations of earnings contributions, reference is made to the respective margin of the various business segments, which takes account not just of sales and cost of materials, but also of other operating income and expenses which can be directly allocated to the commercial business.

Results of operation

Our trading business closed with a good and, compared to the previous year, much improved performance. This is also attributable, however, to successfully concluded forward transactions, which to a large extent will only be recognized in the income statement in subsequent years when settlement occurs. In financial year 2012, transactions from previous years were also realized. The margin computed under German commercial law thus totaled €240.0 million. Our continental European electricity desk made the largest contribution.

The Gas Supply division result was primarily impacted by the successful negotiations with our gas suppliers to adjust long-term contract prices. The retroactive change of the contract terms resulted in compensation payments being made to us for past realized losses. Due to the successful change of these contracts to being market index linked, it was also possible to partially reverse provisions that had in the past been set up in cost of materials for expected losses from these contracts. The Gas Supply division margin totaled around €1.2 billion.

The much more negative result in the previous year was mainly characterized by the realization of negative margins due to the link to oil prices and the increase in the provision for expected future losses from these gas supply transactions.

The Sales & Origination division, which currently mainly comprises our key account sales, made an additional contribution to the overall result in 2012. At €33 million, the result was significantly higher than in the previous year, the reason being that the previous year had been affected by provisions for legal disputes.

The rise in sales is mainly attributable to the quantitative increase in the Electricity division.

Furthermore, significant amounts arising from increases in provisions or reversals of provisions are contained in other operating expenses or other operating income in the financial year.

Trading and Gas Supply division profits are offset by running costs, which mainly comprise personnel and IT costs.

Net income for the year also includes one-off charges in respect of the portfolio additions described above.

In addition, there was a requirement to write down two interests in affiliated companies by a total amount of €121.8 million.

In 2012, interest income was more or less equal to interest expenses. Net interest income thus improved slightly from the previous year. Net interest income mainly comprises the interest on our fund accounts, especially with RWE AG, as well as interest on collateral.

Profit on ordinary activities totaled €714.76 million, and is therefore, mainly due to the high income generated by the Gas Supply division, significantly higher than the previous year's result, which turned out to be very poor with a loss of €2,086.6 million.

In addition to the losses from the Gas Supply division, the previous year's result was further reduced by large write-downs on our Swiss equity interest in the amount of €622.6 million.

Under the control and profit and loss transfer agreement with RWE AG, €766.1 million was transferred to RWE AG (previous year: assumption of loss of €2,037.1 million)

Investing activities

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

In financial year 2012, RWEST's fixed assets changed by €0.1 million.

Intangible and financial asset additions were almost completely offset by intangible and financial asset amortization and write-downs.

Net assets and financial position

At €8,124.0 million, total assets reported for the year under review were lower than total assets for the previous year of €10,056.7 million.

On the asset side, inventories increased by €100.5 million and intangible assets by €107.0 million. The increase in inventories and the changes in intangible assets resulted primarily from the portfolio additions. Intangible assets mainly include consideration paid for executory contracts (contract values). Receivables and other assets declined by €1,819.1 million, primarily due to the reduction in receivables from affiliated companies.

The percentage of current assets to total assets was 92.6% and therefore near to the prior-year level (previous year: 94.0%). The percentage of fixed assets to total assets was 7.4% and therefore also close to the prior-year level (previous year: 6.0%).

Shareholders' equity and liabilities were characterized by the reduction in liabilities of €1,282.6 million, which is mainly due to the decline in payables to affiliated companies. The ratio of liabilities to total assets was 79.3% and therefore near to the prior-year level (previous year: 76.8%).

For information on contingent liabilities which have, in accordance with German commercial law, not been recognized in the balance sheet, please refer to the appropriate explanations in the notes to the annual financial statements.

The Company is integrated into the cash management system of RWE AG which ensured that solvency was maintained.

Cash Flow Statement

	2012	2011
Cash and cash equivalents at beginning of year	**70.8**	**28.9**
Net income/loss before profit and loss transfer	766.1	- 2,037.1
Fixed asset depreciation, amortization and write-downs/reversals of write-downs	177.5	729.7
Increase/decrease in provisions	- 635.9	943.8
Increase/decrease in inventories	- 100.5	248.4
Increase/decrease in receivables	967.2	- 1,968.7
Increase/decrease in other assets/securities/prepaid expenses and deferred charges	1,030.4	- 1,292.7
Increase/decrease in liabilities	- 1,282.6	1,860.8
Cash flow from operating activities	**922.2**	**- 1,515.8**
Proceeds from disposals (financial assets)	6.2	0.4
Payments for investments	- 183.5	- 500.3
Cash flow from investing activities	**- 177.3**	**- 499.9**
Cash receipts from issue of capital	-	20.5
Profit and loss transfer	- 766.1	2,037.1
Cash flow from financing activities	**- 766.1**	**2,057.6**
Net cash flow	**- 21.2**	**41.9**
Cash and cash equivalents at end of year	**49.6**	**70.8**

4. Outlook

Our proprietary trading result is likely to increase in the next two years. On the one hand, we expect subsequent years to benefit from the realization of forward transactions already successfully concluded previously; on the other hand, we are aiming for further growth in proprietary trading.

It is anticipated that our Sales & Origination division will make a constant contribution to earnings running into double-digits of € millions.

Gas Supply division contributions will stabilize because it has meanwhile been possible to agree structural contract adjustments.

Moreover, it is expected that the Trading/Gas-Midstream segment operating costs can be further reduced as a result of the SPAR savings and efficiency program which has already to some extent commenced in 2012. For RWEST, the program mainly includes significant IT and personnel savings, which by 2014 should have allowed RWEST to contribute €100.0 million to the savings target for the whole segment.

Profit/loss on ordinary activities of the reporting year was characterized by the effects of large and one-off price revisions in the Gas Supply division; in the two subsequent years we are thus expecting a marked reduction in profit to less than 25% of the current-year profit on ordinary activities.

Economy

Early forecasts estimate that global economic output in 2013 will rise by approximately 2.5% – assuming the sovereign debt crisis does not escalate. The measures necessary to consolidate national budgets are likely to have a detrimental effect on growth in the euro area. It is therefore possible that the total eurozone gross domestic product will stagnate. Prospects for the German economy seem a little more favorable: After growth of around 1% in the past year, the German Council of Economic Experts considers that growth in economic output of almost 1% should also be possible for 2013. The difficult position of Europe's neighboring countries is likely to depress exports; stabilizing effects are however expected from the robust labor market and from increased disposable incomes.

Demand for electricity and gas

With the year just past having been roughly in line with the long-term climatic average, weather-dependent gas and electricity consumption may once again be similar to the previous year if 2013 proves to have normal temperatures. Due to the moderate economic growth forecasts for 2013, the part of the demand for electricity and gas which is dependent on the economy should once again reach the level of the previous year. In view of the anticipated lower CO_2 and coal prices, a negative influence on gas demand is to be expected with higher gas prices, which continues to make the use of gas in electricity generation less attractive.

Energy prices

For internationally traded commodities such as oil and coal, forward contracts for 2013 were last quoted (at the end of December 2012) at around $106/bbl or $93/t; they were therefore about 5% below the 2012 price level. Gas forward contracts (TTF) for 2013 were valued at around €26/MWh, an increase of about 7% compared to 2012. CO_2 certificate forwards for 2013 were trading lower towards the end of last year; at €6.7/t, they were around 10% below 2012 prices. In the last days of December 2012, electricity traders were expecting higher prices for the coming year: At around €44/MWh, EEX base load forward contracts were quoted a little above average spot market prices for 2012, whereas peak load forward contracts at about €56/MWh lay around 15% above the average peak price for 2012.

5. Risks and opportunities

As RWE Group's interface with global wholesale markets, RWEST takes on a central role for energy and energy commodities. Know-how on everything to do with commodity trading and associated risks is brought together under one roof. Fluctuating electricity and fuel prices, as well as changing market structures make professional risk management indispensable. For us, the systematic recording, measurement and management of risks are core elements of sound business management. It is equally important to identify opportunities and to exploit them.

Risk management at RWE Supply & Trading GmbH

As part of RWE AG's group-wide risk management, RWEST and its investees have implemented a risk management system (RMS) to allow the early identification of risks to the Company, the monitoring of these and the implementation of countermeasures.

Organization of risk management RWEST's management has overall responsibility for our RMS. It determines rules and minimum standards which are based on the *Mindestanforderungen an das Risikomanagement* (MaRisk – Minimum Requirements for Risk Management) for credit institutions and on international best practice standards. In addition to the upper limits for aggregate market and credit risks prescribed by RWE AG, it also defines limits for individual trading desks and partners. Moreover, it takes decisions on individual transactions which may carry substantial risks.

The Risk division, which reports to the department of the Chief Financial Officer (CFO), is responsible for the monitoring, measurement, control, management and further development of the RMS for commodity, price, credit and operational risks. This organizational unit regularly reports on the risk position to management and RWE AG. RWE AG's guidance on the monitoring, control and management of financial risks (currency, interest and liquidity risks) is implemented by the Finance division. In addition, the Compliance division monitors, amongst other things, compliance with the RWE code of conduct with particular focus on the avoidance of corruption risks. These two divisions also report to the CFO.

We have segregated the Trading and Retail divisional functions, up to and including management level, from back office, accounts, compliance, and risk management. This ensures that central risks are monitored independently and that predetermined rules and minimum standards are implemented.

Risk management as a continuous process Risk management has been integrated into our operational workflows as a continuous process and follows the guidance in the RWE Group "Risk Management" guideline. This guideline describes the requirements of the *Gesetz zur Kontrolle und Transparenz im Unternehmensbereich* (KonTraG – German Corporate Control and Transparency Act) in relation to RWE AG's minimum requirements for the organization of the set up and the processes of a RMS within RWE Group companies. Within RWEST, we have set minimum standards which exceed this and implemented specific processes to manage market, credit and operational risks.

Risks identified are measured according to their respective probability of occurrence and damage potential, and aggregated at company level. From this we can derive whether, and to what extent, there is a need for action. Risks with a higher probability of occurrence or damage potential are mitigated by operational measures. Where necessary, these risks are reflected on the balance sheet, e.g., in provisions. We evaluate and manage opportunities as part of our regular planning process. Standardized reports on our risks and opportunities are prepared for management and RWE AG on a quarterly basis. Management is immediately informed of any unforeseen material changes in the risk position.

The implementation of the above Group guideline by RWEST and its investees was examined by the group auditor of RWE AG. The committees and office holders responsible under the guideline ensured that potential risks were identified, systematically recorded, measured and examined on a quarterly basis. In addition, the RWE Group internal audit department appraises the adequacy 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 fully ruled out.

Overall assessment of the risk and opportunity position by management

The performance of supply and demand on the energy and commodities markets affects our results of operation significantly. We are also witnessing structural changes in the markets. For example, the continuing rise in the number of wind and solar power installations is leading to the displacement of conventional generation capacities. The gas market is also undergoing change. The increasing significance of liquid markets and the expansion of shale gas production in the USA have been the major contributors to the decoupling of gas trading prices from those in gas procurement contracts that are indexed to the oil price; since 2009, the former have been much lower than the latter. For the majority of our oil-linked contracts, we have for the reporting year already been able to push through an adjustment of terms to take account of market performance. Moreover, we are witnessing a trend towards stronger regulation of energy trading transactions. Significant risks, but also opportunities, arise from this and also from the categories presented below.

Major risk and opportunity categories

The following risks and opportunities can have a significant influence on our net assets, financial position and results of operation:

Risks and opportunities from commodity price fluctuations Price movements on the commodity markets exert significant influence on RWEST's result, since the aim of proprietary trading activities – in contrast to the tasks that are part of the management of the Group's generation position, taking account of RWE AG's hedging guidelines – is to use price changes in the energy markets in a targeted way.

We mitigate commodity price risks by active opportunities and risk management, which comprises the following key elements over and above the segregation of duties:

- Dual control principle for all business transactions
- Use of integrated systems for front office, back office and risk management with user-specific access rights
- Trading in new products/markets or with new counterparties or in single transactions only after a successful approval process
- Extensive limit systems to limit price risks incurred
- Permanent monitoring of material risk positions and performance indicators, and regular, timely reporting

Value at Risk (VaR), which may not exceed €40 million, is a key performance indicator for the monitoring of commodity risks incurred in proprietary trading. VaR quantifies the potential loss resulting from a risk position that will not be exceeded, given a predetermined probability and a predetermined time period. The VaR amounts are generally based on a confidence level of 95%; a holding period of one day is assumed for the positions. With the inclusion of correlations, VaR averaged €6 million in financial year 2012; the maximum daily amount was €13 million.

In addition to the VaR limit, we have set limits for the individual trading desks. Trading transactions are recorded and reported in portfolios which are strategy-related and partly separated by regions. This results in clear portfolio management responsibilities for the respective principal traders, who in turn report directly to the managing director responsible for the Trading division. The desk portfolios are divided into further portfolio categories. The sub-portfolios are managed by the respective traders responsible; additional limits have been set for some of the sub-portfolios.

VaR amounts and limit utilizations are computed on a daily basis and reported to the executives and to management. We also regularly use stress tests to record the risk of extreme price fluctuations which extend beyond the VaR computations. If the risks are too high, countermeasures are taken. Management and RWE AG are informed of the consolidated risk positions and stress test results on a monthly basis.

For accounting purposes, underlying transactions are recognized as part of portfolio hedges in compliance with internal risk management and control systems. To a large extent, the portfolio hedges contain financial instruments as hedged items and hedging instruments. Please refer to the explanations under section "Portfolio hedges under section 254 of the HGB" in the notes to the annual financial statements.

Risks and opportunities from market volatility and market liquidity Energy trading is to a large extent defined by the volatility of the individual commodity markets. This continues to present RWEST with big opportunities for the exploitation of price fluctuations. Further growth potential for RWEST arises from the development of new liquid energy trading markets in Eastern Europe, as well as from the increasing liquidity in the gas markets. This, together with the expansion in Asian fuel and international electricity markets, provides RWEST with further development opportunities. We could be exposed to risks arising from the reduced liquidity of the British electricity trading market and the increasing reintegration in the British electricity market. Moreover, legislative initiatives have been launched at a European level which aim to increase the regulation of energy trading transactions and could thus influence market liquidity. One of the objectives is to obligate utilities to trade commodity derivatives at clearing points and to provide more financial collateral than previously if derivative positions exceed a financial threshold which is as yet to be determined.

Risks and opportunities from gas procurement contract price renegotiations We procure gas from liquid gas wholesale markets such as TTF (the Netherlands), NBP (United Kingdom) or NCG (Germany) as well as on the basis of long-term procurement contracts. Since 2009, prices at the above trading points have decoupled from those in oil-linked contracts; the former have at times been considerably lower. Due to contractual obligations, we have therefore to some extent purchased gas at prices that are significantly higher than those for which it can be procured in the market. This has resulted in a decline in margins. In previous years, we entered into renegotiations with our gas suppliers in order to achieve procurement terms that are aligned with market performance. We have already achieved positive results in these negotiations: To a large extent, the contracts have been switched to gas wholesale price indexing, or they have been terminated early by mutual agreement.

Credit risks Credit risks arise from our business relationships with trading partners (including banks), key accounts and suppliers. We track the creditworthiness of our business partners in a timely manner. We assess their creditworthiness before and during the business relationship by means of our own internal ratings, which also take account of external information, e.g., assessments by rating agencies. When measuring and managing credit risks, we also ensure that the standards which apply across the Group are complied with. We mitigate our credit risks by setting limits and adjusting these particularly if creditworthiness changes. If necessary, we request cash collateral or bank guarantees. A credit limit must have been approved before any transaction can take place. Credit risks and limit utilization are measured daily and reported to management and RWE AG on a monthly basis.

Exchange-traded and over-the-counter energy trading transactions are generally concluded based on standardized master agreements, as prescribed by the European Federation of Energy Traders (EFET), among others. 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).

Operational risks These include potential losses arising from inadequate or incomplete processes, procedures and systems, human misconduct or external circumstances. Actual and potential claims that are material are recorded regularly, analyzed in terms of their causes and reported to management. Operational measures are derived and their implementation is monitored. In order to limit possible damage from business interruption, we have prepared a contingency plan which is tested regularly. Lack of availability of IT infrastructures and breaches of data security are mitigated by high security standards. We limit employee fluctuation risks with rules on substitutes and early succession planning. We aim to retain our experts and executives over the long term with performance-related remuneration, progressive employee benefits, extensive career prospects, and attractive further education and training opportunities.

Legal and regulatory risks Legal and regulatory risks are recorded and discussed extensively under the KonTraG process, and mitigated with countermeasures if required.

We have covered legal risks, i.e., potential losses from actions pending before ordinary courts and arbitration tribunals, by setting up appropriate provisions. The claims being argued substantially exceed these provisions. Considering the legal appraisals in our possession however, we regard these claims as untenable. Nevertheless, there is a risk that RWEST may not be able to assert its opinion.

We continuously track changes to market structures (e.g., the introduction of capacity markets) and regulatory energy trading conditions (e.g., REMIT, EMIR) so as to anticipate them in good time and to implement them on time where appropriate. This also includes risks and opportunities from the increasing regulation of energy trading as part of the Markets in Financial Instruments Directive (MiFID) and Markets in Financial Instruments Regulation (MiFIR). Intense monitoring of markets and competitors helps us, at an early stage, to record and measure risks and opportunities that are strategic to the Company.

Financial risks and opportunities Our business is subject to currency and interest rate fluctuations as well as liquidity risks. Changes in exchange rates are significant because of our international presence. In particular, we trade energy commodities such as coal and oil in US dollars. We generally hedge currency risks against the euro in full. We exclude interest rate risks to a large extent by refinancing long-term investments with matching maturities. RWE AG's Treasury department is the contract partner for all currency and interest rate hedging transactions. We are also integrated into the liquidity management of RWE AG. We have to provide short-term collateral if trading contracts suffer losses when measured at current market prices. In reverse cases we receive collateral from our counterparties. As part of a groupwide notification system, we regularly record and report our short, medium and long-term funding requirements to RWE AG. Furthermore, we use stress tests to establish the unexpected liquidity requirement for the provision of collateral. Liquidity planning forecasts are used by RWE AG to ensure that we remain liquid at all times.

Essen, February 06, 2013

The Management

Stefan Judisch

Dr Markus Krebber

Alan Keith Robinson