

Npower Limited

Directors' report and financial statements  
for the year ended 31 December 2004

Registered number: 3653277



# **Npower Limited**

## **Directors' report and financial statements for the year ended 31 December 2004**

	<b>Page</b>
Directors' report for the year ended 31 December 2004.....	1
Independent auditors' report to the members of Npower Limited .....	4
Profit and loss account for the year ended 31 December 2004 .....	5
Balance sheet as at 31 December 2004 .....	6
Notes to the financial statements for the year ended 31 December 2004.....	7

# **Npower Limited**

## **Directors' report for the year ended 31 December 2004**

The Directors present their report and the audited financial statements for the year ended 31 December 2004.

### **Principal activities**

The principal activities of the Company and its subsidiaries are the marketing and supply of electricity and natural gas and related services to domestic, commercial and industrial consumers.

### **Business Review**

The year ended December 2004 has been one of continuing the focus on the integration of the RWE retail group of which Npower Limited is a part. It is expected that this activity will continue throughout 2005 with the rationalisation of processes and legal entities within the retail group.

### **Review of results and dividends**

The results for the year are shown on page 5. The directors do not recommend the payment of a dividend (2003: £nil)

### **Charitable contributions**

The Company made no political contributions during the year. During the year the Company made the following charitable donations (2003: £nil).

Macmillan Cancer Relief	£31,400
Childline	£ 1,000

### **Directors and their interests**

The directors who served during the year and subsequently are as follows:

Dr BM Count (resigned on 1 September 2004)  
M Bowden  
A Duff  
D Threlfall (appointed 1 November 2004)

According to the register required to be kept under section 325 of the Companies Act 1985 none of the Directors of the Company at 31 December 2004 held any interest in shareholdings, share options or debentures of group companies incorporated in the United Kingdom. As permitted by statutory instrument, the register does not include shareholdings of Directors in companies incorporated outside Great Britain.

During the year no (2003: no) directors exercised share options in RWE Npower Holdings plc.

### **Health and safety**

The Company regards the health and safety of its employees as an essential integrated feature of our operations. We have published an overall policy and guidelines and procedures appropriate to each of our workplaces have been issued to managers.

# **Npower Limited**

## **Directors' report for the year ended 31 December 2004 (continued)**

### **Employees**

The energy, innovation and creativity of our staff add value to our businesses.

The Company is committed to the development of all staff in the organisation in order to leverage our intellectual capital. Staff are encouraged to maintain personal development plans and the company provides financial support to employees to pursue training opportunities.

The major changes within the Company mean that effective communications with staff are vital. Corporate publications and other media, including distribution of key development messages and team briefings, are used to promote wide understanding of policies and strategy. We also utilise the latest technology to aid rapid communication with staff around the world through use of a comprehensive Company Intranet.

### **Equal opportunities and diversity**

The Company is committed to equal opportunity and diversity because of a sense of social responsibility and also because it makes sound business sense to tap into the wide-ranging knowledge and experience of individuals in all sectors of society. Through its commitment to valuing the talents of its employees, the Group aims to ensure that it is able to compete in attracting and retaining high calibre employees with wide-ranging experience and is therefore able to respond positively and flexibly to change. Decisions to appoint, reward, train, develop and promote are taken based on skills and abilities, or demonstrated potential, merit and the requirements of the job. Employment decisions affecting both job applicants and employees with disabilities will be made following any reasonable adjustments that may be necessary to ensure fair treatment.

The Group is a member of the Employers' Forum on Disability, Opportunity Now and the Employers' Forum on Age and is committed to the aims of these organisations.

### **Creditor payment policy**

Npower Limited recognises the need to observe the highest standards of business practice in its role as buyer and seller. Its parent company, RWE Npower Holdings plc, subscribes to the CBI's Prompt Payment Code and has formally adopted British Standard 7890 Methods for Achieving Good Payment Performance in Commercial Transactions and this is an achievement and a standard that Npower Limited and its subsidiary companies are seeking to emulate. Npower Limited's average number of days outstanding in respect of trade creditors calculated in accordance with the Companies Act, at 31 December 2004 was 55 (2003: 26) days.

### **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently, as explained under note 1, "Accounting policies". They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Npower Limited**

## **Directors' report for the year ended 31 December 2004 (continued)**

### **Going concern**

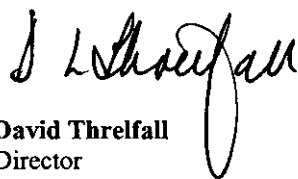
The directors of RWE Npower plc, the immediate parent company, have indicated their willingness to continue to provide financial support to the company for the foreseeable future, at least one year from the date of approval of these financial statements, sufficient for the company to meet its obligations as they fall due. As a result, the directors have prepared the financial statements on a going concern basis.

### **Auditors**

Pursuant to Section 386 of the Companies Act 1985, the Company has dispensed with the obligation to appoint auditors annually. PricewaterhouseCoopers LLP will continue to act as auditors of the company.

Pursuant to Section 366A of the Companies Act 1985 the Company has dispensed with the obligation to hold an annual general meeting and pursuant to Section 379A the Company has dispensed with the requirement to lay accounts before a general meeting.

By order of the board



**David Threlfall**  
Director  
28 June 2005

# **Npower Limited**

## **Independent auditors' report to the members of Npower Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

### **Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Registered Auditors**  
Birmingham  
28 June 2005

# Npower Limited

## Profit and loss account for the year ended 31 December 2004

	Note	2004 £m	2003 £m
<b>Turnover</b>	1	<b>1,622.4</b>	1,537.9
Cost of sales		(921.4)	(876.4)
<b>Gross profit</b>		<b>701.0</b>	661.5
Distribution costs and selling expenses		(41.6)	(24.2)
Administrative expenses before exceptional costs		(567.5)	(584.8)
Exceptional administrative expenses	6	-	(98.0)
<b>Total administrative expenses</b>		<b>(567.5)</b>	(682.8)
<b>Operating profit/ (loss)</b>		<b>91.9</b>	(45.5)
Interest receivable and similar income	2	7.8	2.1
Interest payable and similar charges	3	(6.7)	(2.9)
<b>Profit/(loss) on ordinary activities before taxation</b>	4	<b>93.0</b>	(46.3)
Tax on profit/(loss) on ordinary activities	7	11.8	2.1
<b>Profit/(loss) for the financial year</b>	16	<b>104.8</b>	(44.2)

All amounts are derived from continuing operations.

There is no difference between the profit/(loss) on ordinary activities before taxation and the profit/(loss) for the year above and their historical cost equivalents.

There were no recognised gains or losses other than the profit/(loss) for the year as shown above.

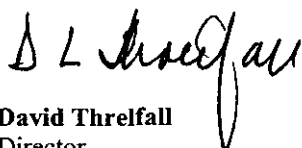
Movements on reserves are set out in note 16 to the financial statements.

# Npower Limited

## Balance sheet as at 31 December 2004

	Note	2004 £m	2003 £m
<b>Fixed assets</b>			
Intangible assets	8	411.5	439.9
Tangible assets	9	47.9	36.0
Investments	10	27.6	27.6
		<b>487.0</b>	<b>503.5</b>
<b>Current assets</b>			
Debtors	11	659.1	738.7
Cash at bank and in hand		4.6	14.5
		<b>663.7</b>	<b>753.2</b>
<b>Creditors: amounts falling due within one year</b>	12	<b>(1,247.6)</b>	<b>(1,464.5)</b>
<b>Net current liabilities</b>		<b>(583.9)</b>	<b>(711.3)</b>
<b>Total assets less current liabilities</b>		<b>(96.9)</b>	<b>(207.8)</b>
<b>Provisions for liabilities and charges</b>	13	<b>(8.5)</b>	<b>(2.4)</b>
<b>Net liabilities</b>		<b>(105.4)</b>	<b>(210.2)</b>
<b>Capital and reserves</b>			
Called up equity share capital	15	1.0	1.0
Merger reserve	16	30.4	30.4
Profit and loss account	16	(136.8)	(241.6)
<b>Total equity shareholders' funds - deficit</b>	17	<b>(105.4)</b>	<b>(210.2)</b>

The financial statements on pages 5 to 21 were approved by the Board of directors on 28 June 2005 and were signed on its behalf by:

  
David Threlfall  
Director



# **Npower Limited**

## **Notes to the financial statements for the year ended 31 December 2004**

### **1 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### **Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Under FRS 1(revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

The financial statements have been prepared on a going concern basis which assumes that the company will continue to trade. The basis of this assumption depends on the support of the immediate parent company, RWE Npower plc. The immediate parent company has indicated that it intends to provide funds as are necessary for the company to trade for the foreseeable future.

As the company is a wholly owned subsidiary, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of RWE AG, within which this company is included, can be obtained from the address given in note 20.

#### **Group accounts**

The Company is exempt under Section 228 of the Companies Act 1985 from the requirement to prepare group financial statements and to deliver them to the Registrar of Companies. The financial statements therefore present information about the Company as an individual undertaking and not about its group. The Company is included within the consolidated financial statements of RWE AG, the Company's ultimate parent undertaking, which is incorporated in Germany.

#### **Turnover**

Turnover is recognised at the date of supply of services to customers, and comprises the value of sales of goods and services, excluding VAT and other indirect taxes in the normal course of business. The Company operates in one class of business, the marketing and supply of electricity and related services, and in one geographical segment, the United Kingdom.

#### **Accounting estimations**

In accounting for revenues and direct costs for energy, the company employs a forecasting process using forecast models to calculate the energy accruals required at the accounting year end. The models are regularly updated with historical actual data downloaded from the financial ledgers which in turn will improve the accuracy of the forecast data. The accuracy of the forecast data is reviewed each year end to identify any significant movements to actual results and adjustments made.

# **Npower Limited**

## **Notes to the financial statements for the year ended 31 December 2004 (continued)**

### **1 Accounting policies (continued)**

#### **Goodwill**

In accordance with Financial Reporting Standard No. 10: Goodwill and Intangible Assets, goodwill arising on acquisitions of unincorporated businesses, being the difference between the fair value of the purchase consideration and the fair value of the identifiable net assets/liabilities of an acquired business, is capitalised and amortised in equal annual instalments over its useful economic life, normally a year not exceeding 20 years.

Impairment reviews are undertaken in accordance with the requirements of FRS 11: Impairment of fixed assets and goodwill.

#### **Investments**

Unlisted investments are stated at cost less provisions for impairment losses.

#### **Tangible fixed assets**

Tangible fixed assets are stated at original cost less accumulated depreciation. In the case of assets constructed by the Company, related works and commissioning costs are included in cost. Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date.

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

The depreciation charge is based on the following estimates of useful lives:

Freehold buildings	40 years straight line
Short leasehold land and buildings	year of lease
Office equipment and furniture	5 years
Computer hardware and software costs	5 years

Depreciation of computer software costs commences when the related software becomes operational.

#### **Hedging policy**

Npower Limited seeks to manage its exposure to electricity price volatility by entering into arms length trading contracts with both RWE Npower plc (its immediate parent company) and RWE Trading GmbH through external contracts in accordance with the terms of Supply Licence granted by OFGEM. The contracts in place at the year end are in accordance with requirements established under the New Electricity Trading Arrangements ("NETA") which commenced on 27 March 2001.

The external contracts include the purchase of output from renewable sources and also from generation embedded within the distribution networks of the former Public Electricity Suppliers.

# Npower Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 1 Accounting policies (continued)

#### Pension costs

Pension contributions into defined benefit schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. The regular cost is attributed to individual years using the projected unit credit method. Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

In accordance with the transitional arrangements under Financial Reporting Standard 17 "Retirement Benefits" additional disclosures are required for the year ended 31 December 2004, these are disclosed in note 19 to the financial statements.

Contributions payable under money-purchase schemes are charged to the profit and loss account as they fall due.

#### Leases

Rentals payable under operating leases are charged to the profit and loss account evenly over the term of the lease.

#### Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred. Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

### 2 Interest receivable and similar income

	2004	2003
	£m	£m
Interest receivable on cash deposits	7.8	2.1

### 3 Interest payable and similar charges

	2004	2003
	£m	£m
Interest payable on overdraft balances	6.7	2.6
Other similar charges	-	0.3
	6.7	2.9

# Npower Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 4 Profit/(loss) on ordinary activities before taxation

	2004	2003
	£m	£m
<b>Profit/(loss) on ordinary activities before taxation is stated after charging</b>		
Amortisation of capitalised goodwill (note 8)	28.4	28.4
Depreciation (note 9)	8.6	17.9
Impairment of tangible fixed assets	-	73.8
Loss on disposal of fixed assets	3.1	-
Auditors' remuneration (audit fees)	0.1	0.1
Operating lease rentals:		
Land and buildings	1.1	2.4
Plant and machinery	0.1	0.1

Fees paid to the auditors for non audit services amounted to £nil (2003: nil).

### 5 Directors emoluments and employee information

The average monthly number of employees (including executive directors) was:

	2004	2003
	Number	Number
Selling, customer service and administrative staff	5,341	1,437

# Npower Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 5 Directors emoluments and employee information (continued)

The aggregate remuneration comprised:

	2004	2003
	£m	£m
Wages and salaries (including redundancy costs of £2.9m)	144.0	35.6
Social security costs	13.1	3.6
Other pension costs (including redundancy costs of £3.0m)	9.7	1.1
	166.8	40.3

With effect from April 2004 all npower retail group employees, with the exception of the metering businesses, were transferred onto contracts with Npower Limited. Employee costs from this date have been recharged to each of the subsidiary entities via the group management charge based on the proportionate turnover of each subsidiary entity. Total staff numbers and associated costs before any recharges have been disclosed above.

All directors are paid by RWE Npower plc, the immediate parent company, for their services to the group as a whole and it is not possible to fully allocate their emoluments to Npower Limited. Their aggregate emoluments are disclosed in the accounts of RWE Npower plc. Total directors' emoluments paid through Npower Limited were £44,000 (2003:£412,000). These emoluments were wholly in respect of one director being D Threlfall in 2004 and A Duff in 2003.

No director was a member of the Company's defined contribution scheme in the year. All directors are members of defined benefit schemes (2003:All).

During the year, no directors (2003: no directors) exercised share options in RWE Npower Holdings plc.

# Npower Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 6 Exceptional administrative expenses

Exceptional items comprise the following:

	2004	2003
	£m	£m
Charge resulting from write off of unbilled debt no longer considered to be recoverable	-	12.0
Charge resulting from write off of debtors balances no longer considered to be recoverable	-	12.2
Impairment of tangible fixed assets	-	73.8
	-	98.0

# Npower Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 7 Tax on loss on ordinary activities

	2004	2003
	£m	£m
United Kingdom taxation at 30%:		
Current tax:		
Group relief payable	2.3	0.6
Deferred tax (see note 14):		
Deferred tax credit	(4.7)	(7.2)
Adjustment in respect of prior periods	(9.4)	4.5
Total deferred taxation	(14.1)	(2.7)
Credit to profit and loss account	(11.8)	(2.1)

The current tax credit for the year is lower (2003: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004	2003
	£m	£m
Profit/(loss) on ordinary activities before tax	93.0	(46.3)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	27.9	(13.9)
Effects of:		
Depreciation in excess of capital allowances	3.9	18.3
Utilisation of brought forward losses	(40.0)	(11.1)
Expenses not deductible for taxation purposes	8.7	8.5
Income not taxable	-	(1.3)
Other timing differences	1.8	0.1
Profit and loss account charge	2.3	0.6

# **Npower Limited**

## **Notes to the financial statements for the year ended 31 December 2004 (continued)**

### **8 Intangible assets**

	<b>Goodwill</b>
	<b>£m</b>
<hr/>	
<b>Cost</b>	
At 1 January 2004 and 31 December 2004	<b>568.4</b>
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<b>Amortisation</b>	
At 1 January 2004	128.5
Charge for the year	28.4
<hr/>	
<b>At 31 December 2004</b>	<b>156.9</b>
<hr/>	
<b>Net book value</b>	
<b>At 31 December 2004</b>	<b>411.5</b>
<hr/>	
At 31 December 2003	439.9
<hr/>	



# Npower Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 9 Tangible fixed assets

	Freehold land and buildings	Leasehold property alterations	Computer hardware	Computer software	Office equipment and furniture	Assets in the course of construction	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Cost</b>							
At 1 January 2004	2.9	1.6	-	106.1	18.2	10.9	139.7
Additions	-	-	-	0.3	0.6	18.9	19.8
Disposals	-	-	-	(3.6)	-	-	(3.6)
Reclassification	-	-	-	(1.9)	15.3	(13.4)	-
Transfers to/from other group companies	-	0.1	0.7	0.2	4.0	(1.2)	3.8
<b>At 31 December 2004</b>	<b>2.9</b>	<b>1.7</b>	<b>0.7</b>	<b>101.1</b>	<b>38.1</b>	<b>15.2</b>	<b>159.7</b>
<b>Depreciation</b>							
At 1 January 2004	0.4	0.1	-	94.1	9.1	-	103.7
Charge for the year	0.1	-	-	4.7	3.8	-	8.6
Disposals	-	-	-	(0.5)	-	-	(0.5)
<b>At 31 December 2004</b>	<b>0.5</b>	<b>0.1</b>	<b>-</b>	<b>98.3</b>	<b>12.9</b>	<b>-</b>	<b>111.8</b>
<b>Net book value</b>							
<b>At 31 December 2004</b>	<b>2.4</b>	<b>1.6</b>	<b>0.7</b>	<b>2.8</b>	<b>25.2</b>	<b>15.2</b>	<b>47.9</b>
At 31 December 2003	2.5	1.5	-	12.0	9.1	10.9	36.0

#### Capital commitments

Included with fixed assets is capital work in progress of £15.2m (2003: £10.9m), within which is a significant amount of system development cost.

Details of the capital commitments of the Company can be found in note 18.

# Npower Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 10 Fixed asset investments

	Shares in subsidiary undertakings
Cost and net book value	£m
At 1 January 2004 and 31 December 2004	27.6

The Company's trading subsidiary undertakings at 31 December 2004 are detailed below. All of the subsidiary undertakings are incorporated in Great Britain.

Name of subsidiary undertaking	Identity of shares held	Proportion of nominal value of issued shares of that class	Nature of business
Npower Gas Limited	3,862,500 'A' ordinary shares	100%	Energy supply
	3,862,500 'B' ordinary shares	100%	
Npower Commercial Gas Limited	2 ordinary shares	100%	Energy supply
Npower Energy Sales Limited	2 ordinary shares	100%	Sales and marketing
Npower Financial Services Limited	1 ordinary share	100%	Financial services

### 11 Debtors

	2004	2003
	£m	£m
Trade debtors	160.0	143.3
Amounts due from group undertakings	216.4	334.4
Prepayments and accrued income	248.9	241.3
<b>Total amounts recoverable within one year</b>	<b>625.3</b>	<b>719.0</b>
Deferred taxation asset (note 14)	33.8	19.7
<b>Total amounts recoverable after more than one year</b>	<b>33.8</b>	<b>19.7</b>
<b>Total debtors</b>	<b>659.1</b>	<b>738.7</b>

Amounts due from group undertakings are unsecured, interest free and have no fixed date of repayment.

Prepayments and accrued income includes accruals for electricity income not yet billed of £234.6 million (2003: £229.6 million).

# Npower Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 12 Creditors: amounts falling due within one year

	2004	2003
	£m	£m
Trade creditors	28.2	159.0
Customer payments in advance	127.7	114.0
Loans due to group undertakings	699.7	988.2
Other amounts due to group undertakings	95.3	158.6
Other tax and social security	6.3	9.4
Accruals and deferred income	290.4	35.3
	1,247.6	1,464.5

The loans due to group companies are subject to annual renewal by agreement with the holding company. Such loans have therefore been included within current liabilities. As at the date of approval of these financial statements the Directors are not aware of any intention of the holding company to require repayment of such funding, other than by way of transfer of surplus funds arising within the company's operations.

No interest is charged to the Company for the loans from other group companies.

Amounts due to group undertakings are unsecured, interest free and have no fixed date of repayment. With effect from 1 January 2005 loan amounts due to RWE Npower plc were replaced with unsecured loan notes which attract interest at base rate plus 1%. Other amounts due to group undertakings includes £2.3m (2003 - £0.6m) of group relief payable (see note 7).

### 13 Provisions for liabilities and charges

	Re-organisation provision
	£m
At 1 January 2004	2.4
Charged to profit and loss account	11.0
Utilised in the year	(4.9)
At 31 December 2004	8.5

The re-organisation provision represents the balance of the provision for redundancy and related costs in respect of a business re-organisation which is expected to be utilised during the course of 2005.

# Npower Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 14 Deferred taxation

The movement on deferred taxation is as follows:

	2004 £m
At 1 January 2004	19.7
Credit to profit and loss account	14.1
<b>At 31 December 2004</b>	<b>33.8</b>

Deferred taxation provided in the financial statements, and the amount not recognised of the total potential asset, are as follows:

	Amount recognised		Amount not recognised	
	2004	2003	2004	2003
	£m	£m	£m	£m
<b>Tax effect of timing differences because of:</b>				
Decelerated capital allowances	31.3	17.4	-	-
Other timing differences	2.5	0.7	-	-
Losses	-	1.6	38.5	86.1
<b>Deferred tax asset (note 11)</b>	<b>33.8</b>	<b>19.7</b>	<b>38.5</b>	<b>86.1</b>

The unrecognised tax losses are regarded as permanent differences under FRS19.

# Npower Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 15 Share capital

	2004	2003
	£m	£m
<b>Authorised</b>		
1,500,000 ordinary shares of £1 each	1.5	1.5
<b>Allotted, called up and fully paid</b>		
1,000,001 ordinary shares of £1 each	1.0	1.0

### 16 Reserves

	Merger reserve	Profit and loss account	Total
	£m	£m	£m
At 1 January 2004	30.4	(241.6)	(211.2)
Profit for the financial year	-	104.8	104.8
<b>At 31 December 2004</b>	<b>30.4</b>	<b>(136.8)</b>	<b>(106.4)</b>

### 17 Reconciliation of movements in equity shareholders' funds

	2004	2003
	£m	£m
Profit/(loss) for the year and net increase/ (reduction) in equity shareholders' funds	104.8	(44.2)
Opening equity shareholders' funds	(210.2)	(166.0)
<b>Closing equity shareholders' funds</b>	<b>(105.4)</b>	<b>(210.2)</b>

# Npower Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 18 Capital and financial commitments

Capital commitments at 31 December 2004 for which no provision has been made in these financial statements were as follows:

	2004	2003
	£m	£m
Contracted but not provided	-	-

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings		Plant and machinery	
	2004	2003	2004	2003
	£m	£m	£m	£m
Expiry date:				
In less than one year	-	0.2	-	0.1
Within two to five years	-	0.4	-	-
More than five years	1.1	1.7	-	-
	1.1	2.3	-	0.1

During the year all operating leases, other than for land and buildings, were transferred to Npower Limited from other Npower retail group companies and then novated to an external facilities provider.

# **Npower Limited**

## **Notes to the financial statements for the year ended 31 December 2004 (continued)**

### **19 Pension scheme funding**

The majority of pensions are funded through the RWE npower section of the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS) which is a defined benefit scheme with assets invested in separate trustee-administered funds. The ESPS is divided into sections. There is also a defined contribution scheme, the RWE Innogy Group Defined Contribution Scheme (IGDCS).

An actuarial valuation of the RWE npower Group of the Electricity Supply Pension Scheme is carried out every three years by a professionally qualified actuary who recommends the rates of contribution payable by each employer. The Company has taken separate advice from a professionally qualified actuary in order to determine the pension cost to be included in the financial statements under Statement of Standard Accounting Practice 24. The latest available review of the assets and liabilities in RWE npower's section of the ESPS for accounting purposes was undertaken as at 31 March 2004, using the projected unit credit method. The assumptions which have had the most significant effect on the results of the review are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the annual investment return would be 2.3% higher than the annual general increase in salaries and 2.4% higher than the annual increases in pensions.

At 31 March 2004, the market value of the RWE npower Group of ESPS assets was £3,249 million and the market value covered 96% of the benefits that had accrued to members after allowing for expected future increases in earnings.

During the period ended 31 December 2004, RWE npower contributed to the ESPS at the rate of 12% of members' pensionable earnings beginning on 1 April 2004 and nil prior to this.

The total pension cost for the scheme was £8 million (2003: a credit of £17 million) of which the Npower Limited cost was £3.7 million. (2003: £1.1 million).

Whilst the Company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension costs", under Financial Reporting Standard 17 "Retirement benefits" the following transitional disclosures are required:

Npower Limited participates, along with other employers in the RWE npower Group, in the RWE npower Group of the Electricity Supply Pension Scheme a defined benefit pension scheme. Npower Limited is unable to identify its share of the underlying assets and liabilities in a reasonable and consistent basis and hence the scheme is accounted for as multi-employer under FRS 17. The last formal valuation of the scheme was carried out as at 31 March 2004. At that date the deficit of the whole scheme was £136 million giving a funding level of 96%. Independent actuaries have assessed the FRS 17 position as at 31 December 2004 for the scheme as a whole by updating the last formal valuations using methods appropriate for FRS 17. As at 31 December 2004 there was a deficit of £160 million (2003: nil).

Npower Limited has paid total contributions of £220,581 (2003: £43,784) into the various defined contribution schemes in the year to 31 December 2004 on behalf of the Npower retail group companies.

There were no prepaid or accrued contributions at 31 December 2004 or 31 December 2003.

### **20 Controlling and parent company**

The company's immediate parent company is RWE Npower plc, a company incorporated in Great Britain and registered in England and Wales. The company's ultimate parent company is RWE AG, a company incorporated in Germany. Copies of the group financial statements are available from RWE AG, Opernplatz 1, D-45128, Essen, Germany.