

Registration number: 3653277

# **Npower Limited**

Annual Report and Financial Statements

for the Year Ended 31 December 2015



## **Npower Limited**

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## Npower Limited

### Strategic Report for the year ended 31 December 2015

The directors present their Strategic Report on Npower Limited ("the Company") for the year ended 31 December 2015.

#### Business review and future developments

The Company forms part of the Npower Retail Group which consists of 6 main trading entities and 4 other trading entities. Each of the 6 main trading entities operate in varying business areas, namely:

- Domestic - residential customers
- Npower Business - small and medium enterprise customers
- Npower Business Solutions - industrial and commercial customers

The business areas in which each trading entity operates are detailed below:

Legal entity	Business area			
	Domestic	Npower Business	Npower Business Solutions	Other
Npower Limited	X		X	
Npower Northern Limited	X		X	
Npower Yorkshire Limited	X			
Npower Gas Limited	X			
Npower Direct Limited		X		
Npower Commercial Gas Limited			X	
Plus Shipping Services Limited				X
Npower Business and Social Housing Limited				X
Innogy Solutions Ireland Limited				X
RUMM Limited				X

Across this Group of companies the operating result has decreased to a loss of £200 million during 2015 (2014 restated following adoption of FRS 101: loss of £17 million).

The directors of the Company do not primarily focus their management of the activities of the Company on a legal entity basis. Instead business performance is monitored and assessed at a segmented level, which when aggregated covers all of the Retail Group's commercial activities in the UK. Therefore the Business Review below represents the directors' assessment of the Retail Group as a whole.

## **Npower Limited**

### **Strategic Report for the year ended 31 December 2015 (continued)**

#### **Domestic**

2015 saw a deterioration in the financial performance of the Domestic segment which resulted in a significant full year operating loss. The 2015 result was largely driven by continued defective operational processes coupled with the redress of the late invoicing issues in 2014. The sector also continues to experience a challenging market and regulatory environment with enhanced media and political attention.

Competition in the Domestic energy market remained fierce in 2015 with npower experiencing a net loss of customers in part as a result of the continued growth of new entrants, aggressive pricing by smaller suppliers, and changing customer behaviour. The sector has seen an increasing proportion of customers moving to short term, fixed price products and market churn has naturally increased. We lost 7% of our account base over the course of the year.

The domestic business has suffered adverse impacts from higher operating costs and complaints management, core billing system remedial cost, higher bad debt charges, customer losses and overall poor customer service. The uSwitch organisation in 2015 reported npower remaining 6th of the Big 6 for customer service. In addition, our historic failings in customer service in previous years was penalised by OFGEM with an unprecedented settlement of £26m (largely provided for in 2015) plus a commitment to deliver significant improvement by mid-2016 on a number of key measures.

We are tackling these customer service issues by investing heavily in our core systems and establishing, with the help of a major consultancy company with specialism in Business recovery, a robust and comprehensive Recovery plan. This is primarily aimed at addressing the root causes of our core system issues, fundamentally fixing the basics to then drive process and cost efficiency. Whilst early days, some initial indications were evident at the end of 2015 which saw npower moving from 6th to 3rd out of the Big 6 on Q4 2015 complaint performance.

We are confident we can execute the recovery plan which will markedly improving our systems, processes and product offerings to improve customer experience, reduce costs and stabilise our customer base. The recovery plan is now firmly embedded in all areas of the business with a view to returning the segment to a sustainable and healthy position delivering better customer service, fair prices and market related returns to the shareholder.

## **Npower Limited**

### **Strategic Report for the year ended 31 December 2015 (continued)**

#### **Npower Business**

2015 saw a year of increased customer churn within the market served by Npower Business. The full effect of the end of auto-rollover enacted by larger suppliers in 2014 combined with the continued aggressive acquisition policy of new entrants has increased switching rates significantly.

Npower Business has seen this within its customer portfolio with increased customer losses through the year as the number of meters within our portfolio decreased from c210k to c200k. This increased churn has impacted the business' gross margin as well as putting pressure on our operations and making the task of collecting debt more challenging than in previous years.

This has led to an increase in the underlying bad debt charge as well as an increase to the bad debt provision rates to reflect this more challenging environment. This increased bad debt charge has driven the significant deterioration in financial performance compared to that experienced in 2014.

The end of 2015 saw unseasonably warm weather above that insured against within our weather derivatives. This put further pressure on our gross margin.

The increased churn in the market and the bad debt issues within this business segment are the two highest priorities for 2016 for Npower Business.

We have successfully launched our broker portal and have significantly and dramatically increased our market coverage within the broker sector. We are also investing heavily to contact our existing customers, proactively offering them attractive propositions, to reduce churn.

Our plan to reduce the debt within our business is supported by a major consultancy company and addresses the whole of the customer journey through take on, metering, billing and change of supplier.

#### **Npower Business Solutions**

The commodity energy supply area (Core Retail) in both power and gas markets experienced underlying growth in gross margin underpinned by increases in number of meters and volumes. However contract retention rates have fallen arising from the increased competition by new entrants, demonstrating the continuing pressure on margins and necessity for service and product offerings to be the differentiator.

Npower Business Solutions has maintained its 2nd position by volume and number of meters in electricity and grew its market share by volume in gas, with an increase of 1.1 TWh (46%).

The Generation Services business continued to demonstrate a strong trend for year on year growth, based upon a growing portfolio of third party generator contracts and Power Purchase Agreements. The change in Climate Change Levy (CCL) legislation in July 2015 has reduced profitability and impacted future years.

Earnings in the Energy Solutions business area were stable, where the focus has been on building and transitioning capabilities (including acquisition of RUMM Limited in April 2015), internal organisation structure and technologies to fully support an integrated energy solution offering to the market.

## **Npower Limited**

### **Strategic Report for the year ended 31 December 2015 (continued)**

#### **General**

The Group experienced a difficult year financially with increased competition across market segments driving down prices and affecting profitability. Unstable operating systems and processes have also hampered efforts to improve efficiency within the business. A recovery plan was launched in 2015 with a major consultancy firm working alongside the business to rectify areas where improvement is required and to identify opportunities to grow commercially.

The Group have continued to cooperate with the Competition and Markets Authority (CMA) investigation into the UK energy market. Provisional decisions on remedies were published in March 2016 with the final report published in June 2016.

RWE announced in December 2015 the intention to pool its renewables, grid and retail operations in a new subsidiary and list them on the stock market. This allows RWE to create a growth platform, which has its own access to the capital market. RWE plan to increase the new company's capital by about 10% by the end of 2016 through the issuance of new shares. The proceeds will be earmarked to finance further growth in promising markets. Furthermore, RWE AG has the option of selling shares in the new company as part of the IPO or thereafter. RWE AG will retain ownership of the majority of the new company. The Npower group comprises the UK retail operation of RWE AG. As part of the project the ownership of Npower group was transferred from RWE Npower Holdings plc to RWE Gas International NV on 29 April 2016.

#### **Position of the business**

The Company's loss for the year ended 31 December 2015 was £39 million (2014: £3 million). The net assets of the Company at 31 December 2015 were £93 million (2014: £132 million).

#### **Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks. These risks are not managed on a legal entity basis, but overseen for the Retail Group as a whole.

The Retail Group continues to invest in a formal, regular risk assessment process to identify, monitor and mitigate as far as possible any risk that should arise. These are formally reviewed and assessed by the Board on a quarterly basis and actions taken as appropriate.

Two key business risks affecting the Company are the retention rates of existing customers and the proportion of its market share. The level of volatility in electricity and gas wholesale prices is another key uncertainty faced by the Company. In addition the Company faces risks that arise from changes in UK's laws and regulations. Furthermore, the Company has a number of operational risks as part of its end-to-end processes. Detailed discussions of these risks and opportunities, in the context of the RWE AG Group as a whole, are provided on pages 78 through 87 of the RWE AG 2015 Annual Report.

In line with the requirements of the German Corporate Control and Transparency Act (KonTraG), the Company's risk management system enables the directors to identify risks at an early stage and initiate mitigating action where necessary.

**Npower Limited**  
**Strategic Report for the year ended 31 December 2015 (continued)**

**Key performance indicators (KPIs)**

The directors of the Company do not primarily focus their management of the activities of the Company or wider group on a legal entity basis. Instead business performance is monitored and assessed at a segmented level, which when aggregated covers all of the Retail Group's commercial activities in the UK. These segments are supported by a number of central functions that provide a range of services including finance, tax, strategy and HR. Each segment is managed in particular against a number of key performance indicators that cover a range of financial, service delivery, efficiency and operational measures. The operations and activities of the Company and the other entities within the Group are allocated across these segments. Therefore the Company's directors do not set KPIs at a legal entity level, and as a result such KPIs are not presented for the Company.

Approved by the Board on 20 September 2016 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P Sharman', written over a dotted line.

Mr P Sharman  
Director

## **Npower Limited**

### **Directors' Report for the year ended 31 December 2015**

The directors present their report on the Company and the audited financial statements for the year ended 31 December 2015.

#### **Principal activities**

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

#### **Dividends**

The directors do not recommend the payment of a dividend (2014: £nil).

#### **Directors of the Company**

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Mr M Miklas (appointed 10 December 2015 and resigned 30 June 2016)

Mr C Pilgrim

Mrs J Eaton

Mr J Stamp

Mr J Scagell

Mr R Rose (resigned 6 November 2015)

Mr G Johnson (resigned 31 May 2015)

Mr R Hattam (resigned 31 May 2015)

Mr S Stacey

The following director was appointed after the year end:

Mr P Sharman (appointed 1 July 2016)

#### **Directors' indemnity**

The directors have the benefit of the indemnity provision contained in the Company's Articles of Association. This provision was in force throughout the last financial year and is currently in force. This provision is a qualifying third party indemnity provision under section 234 of the Companies Act 2006. The Company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

#### **Future developments**

Further details of significant changes in the future developments of the Company are provided in the Strategic Report on page 1.

#### **Going concern**

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 Npower Group plc. Npower Group plc has indicated that it intends to provide funds as are necessary for the Company to trade for the foreseeable future.

#### **Research and development**

The Company invests in the development of software to facilitate its business. Where software is capitalised it is treated as an intangible asset.



## **Npower Limited**

### **Directors' Report for the year ended 31 December 2015 (continued)**

#### **Long term viability statement**

The Company is a 100% owned subsidiary of the RWE AG Group. RWE is one of Europe's five leading electricity and gas companies. The RWE group employs around 60,000 employees and supplies over 16 million electricity customers and nearly 8 million gas customers with energy, in the European market. In Europe the group is No. 3 in electricity and No.5 in gas in terms of sales. In the year 2015, the RWE Group recorded €48.6 billion in revenue, and had an EBITDA of €7 billion. Being a large group, RWE AG manages its financial resources with a Group Treasury function. This function allocates financial resources across the Group to meet all financial obligations in a timely fashion. At the 2015 year end RWE Group Treasury managed €2.5 billion of cash resources.

The Company belongs to the Npower Retail Group of companies, and as such is funded by its parent on an ongoing basis. It is also party to a cash management agreement which affords it access to multimillion pound funding on a daily basis as required to meet its daily working capital requirements.

The directors consider that the RWE AG Group has committed itself to the ongoing supply of electricity and gas in the UK for the medium to long term and will financially support the Npower Retail Group to achieve the objective of remaining a leading supplier in this market.

#### **Employees**

The energy, innovation and creativity of our staff add value to our businesses. During the financial year the Retail Group maintained its existing policies in the following areas in respect of employee involvement.

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

The ongoing changes within the Npower Retail Group mean that effective communication with staff is 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 through a range of media.

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

The Group 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. In addition, appropriate arrangements are made for training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

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.

## **Npower Limited**

### **Directors' Report for the year ended 31 December 2015 (continued)**

#### **Employee share plans**

The Retail Group is part of a savings related share option plan for the benefit of employees in the UK. RWE Generation UK plc is responsible for the operation of these plans on behalf of Retail Group employees up to and including the 2012 tranche. As a consequence of the restructuring of the RWE Npower Holdings plc group, Npower Limited is responsible for the operation of the 2013 tranche. The Retail Group did not operate a new tranche of the scheme in 2014 or 2015.

11% (2014: 30%) of the staff participate in the scheme, saving between £5 and £125 per scheme per month, up to a cumulative total of £125 (2014: £125) per month, per tranche, with the option to purchase RWE AG shares at a 20% discount (2014: 20%) at the end of a three year savings period.

#### **Financial risk management**

##### ***Capital management***

The Company's objectives, policies and processes for managing capital are consistent with those of the RWE AG Group. Detailed discussions of these, in the context of the RWE AG Group as a whole, are provided on page 109 of the RWE AG 2015 Annual Report.

##### ***Credit risk***

The Npower Retail Group of companies has a policy of requiring appropriate credit checks on customers prior to establishing credit terms and payment method. Credit insurance, security deposits and advance payments are arranged depending upon a combination of the credit rating and the projected annual spend. For all new customers with an annual spend in excess of predetermined limits, Centre of Expertise Credit Risk are required to sign off the account prior to acceptance.

Cash at bank and in hand comprises cash in hand and deposits which are readily convertible to cash and are subject to insignificant risk of change in value or credit risk.

##### ***Liquidity risk***

The Company forms part of the Npower Group plc treasury arrangements, which actively manage a mixture of finance to ensure that the group has sufficient liquid resources to manage its current and future operational requirements.

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

The Company is exposed to commodity price risk as a result of its operations. The risk is actively managed through the application of appropriate techniques and methodologies in accordance with the Commodity Risk Controlling Directive of the Company's ultimate parent RWE AG. These techniques and methodologies include the application of appropriate hedge policies, the measurement of commodity risks, the setting of approved transaction limits (together with the monitoring of compliance with the approved limits), the reporting of unhedged positions and the conduct of scenario analyses and stress tests. The hedge policies determine the timing of the purchase of physical forward contracts for power and gas to cover customers' supply requirements. Financial contracts are typically also purchased to manage the impact of weather variations on customer demand.

The Directive and its application within the Company is kept under constant review to reflect changes in market and Company dynamics, together with the nature of products offered to the market.

##### ***Securities price risk***

The Company has no significant exposure to equity securities price risk as it holds no material listed or other equity investments.

**Npower Limited**  
**Directors' Report for the year ended 31 December 2015 (continued)**

**Financial risk management (continued)**

***Interest rate cash flow risk***

The Company has interest-bearing assets and liabilities. Interest-bearing assets include loans to group undertakings. Interest-bearing liabilities include loans from group undertakings. Interest on loans is fixed which minimises the interest rate risk faced by the Company.

***General risk management***

As a subsidiary of RWE AG, the Company complies with the Risk Management Directive of RWE AG, which embodies the relevant provisions of the German Law on Corporate Control and Transparency (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich), together with the German Stock Corporation Act (Aktiengesetz) and the German Commercial Code (Handelsgesetzbuch). Compliance is achieved within the Company through the application of a tri-partite system of three separate but supportive elements, namely a risk controlling/early warning system, an internal control system and an internal audit process.

**Non-adjusting events after the financial period**

In 2016 the RWE group completed a restructure to pool the business of Renewables, Grid & Infrastructure and Retail operations under the banner of innogy. The Npower Retail Group is now part of the innogy SE group of companies.

Following the results of the United Kingdom EU referendum, the directors have begun considering the implications which at this stage remain uncertain. As there has been no change in strategy and any impact in the short term is concluded as unlikely, there have been no additional disclosures or adjustments to the financial statements.

**Change to FRS 101**

The financial statements of Npower Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) with an effective date of 1 January 2014.

## **Npower Limited**

### **Directors' Report for the year ended 31 December 2015 (continued)**

#### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

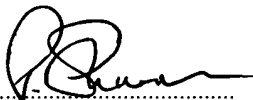
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

#### **Statement of disclosure of information to the auditors**

Each director who held office as at the date of approval of this report confirms the following:

- so far as they are aware, there is no relevant information that they know of and of which the Company's auditors are unaware; and
- each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 20 September 2016 and signed on its behalf by:



.....  
Mr P Sharman  
Director

## **Npower Limited**

### **Independent Auditors' Report to the members of Npower Limited**

#### **Report on the financial statements**

##### **Our opinion**

In our opinion, Npower Limited's financial statements ("the financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### **What we have audited**

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and Loss Account and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

##### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

##### **Other matters on which we are required to report by exception**

###### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

###### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## **Npower Limited**

### **Independent Auditors' Report to the members of Npower Limited (continued)**

#### **Responsibilities for the financial statements and the audit**

##### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

##### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



.....  
Richard French (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

Date: 20/9/16 .....

**Npower Limited****Profit and Loss Account for the year ended 31 December 2015**

	Note	2015 £ m	2014 £ m
Turnover	4	3,665	3,622
Cost of sales		<u>(3,352)</u>	<u>(3,289)</u>
Gross profit		313	333
Administrative expenses		(342)	(262)
Other operating income	5	3	6
Unrealised gains / (losses) of financial derivatives	6	<u>25</u>	<u>(46)</u>
Operating (loss)/profit	8	(1)	31
Interest receivable and similar income	10	6	3
Interest payable and similar charges	11	<u>(49)</u>	<u>(31)</u>
(Loss)/profit before tax		(44)	3
Tax on loss on ordinary activities	15	<u>5</u>	<u>(6)</u>
Loss for the financial year		<u><u>(39)</u></u>	<u><u>(3)</u></u>

The above results were derived from continuing operations.

The notes on pages 17 to 51 form an integral part of these financial statements.

**Npower Limited****Statement of Comprehensive Income for the year ended 31 December 2015**

	Note	2015 £ m	2014 £ m
Loss for the financial year		(39)	(3)
<b>Other comprehensive expense: Items that may be reclassified subsequently to the profit and loss account</b>			
Revaluation of available for sale financial assets	20	<u>-</u>	<u>(2)</u>
Total comprehensive expense for the year		<u>(39)</u>	<u>(5)</u>

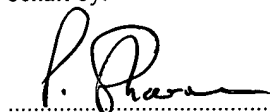
The notes on pages 17 to 51 form an integral part of these financial statements.



**Npower Limited**  
**Balance Sheet as at 31 December 2015**

	Note	2015 £ m	2014 £ m
<b>Fixed assets</b>			
Intangible assets	16	406	407
Tangible assets	17	13	14
Investments	18	33	28
		<u>452</u>	<u>449</u>
<b>Current assets</b>			
Debtors: Amounts falling due within one year	19	1,657	2,106
Debtors: Amounts falling due after more than one year	15	44	33
Available for sale financial assets	20	5	5
Cash at bank and in hand		30	28
		<u>1,736</u>	<u>2,172</u>
Creditors: Amounts falling due within one year	21	(2,012)	(2,379)
Derivative financial liabilities	27	(65)	(90)
Net current liabilities		<u>(341)</u>	<u>(297)</u>
Total assets less current liabilities		111	152
Provisions for liabilities	24	(18)	(20)
Net assets		<u>93</u>	<u>132</u>
<b>Capital and reserves</b>			
Called up share capital	25	1	1
Merger reserve		30	30
Available for sale reserve		5	5
Profit and loss account		57	96
Total shareholders' funds		<u>93</u>	<u>132</u>

The financial statements on pages 13 to 51 were approved by the Board on 20 September 2016 and signed on its behalf by:



Mr P Sharman

Director

Npower Limited registered company number: 3653277

The notes on pages 17 to 51 form an integral part of these financial statements.

# **Npower Limited**

## **Statement of Changes in Equity for the year ended 31 December 2015**

	<b>Called up share capital £ m</b>	<b>Merger reserve £ m</b>	<b>Available for sale reserve £ m</b>	<b>Profit and loss account £ m</b>	<b>Shareholders' funds £ m</b>
At 1 January 2015	<u>1</u>	<u>30</u>	<u>5</u>	<u>96</u>	<u>132</u>
Loss for the financial year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(39)</u>	<u>(39)</u>
Total comprehensive expense for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(39)</u>	<u>(39)</u>
At 31 December 2015	<u><u>1</u></u>	<u><u>30</u></u>	<u><u>5</u></u>	<u><u>57</u></u>	<u><u>93</u></u>

	<b>Called up share capital £ m</b>	<b>Merger reserve £ m</b>	<b>Available for sale reserve £ m</b>	<b>Profit and loss account £ m</b>	<b>Shareholders' funds £ m</b>
At 1 January 2014	<u>1</u>	<u>30</u>	<u>7</u>	<u>99</u>	<u>137</u>
Loss for the financial year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>(3)</u>
Other comprehensive expense for the year	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>(2)</u>
Total comprehensive expense for the year	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(3)</u>	<u>(5)</u>
At 31 December 2014	<u><u>1</u></u>	<u><u>30</u></u>	<u><u>5</u></u>	<u><u>96</u></u>	<u><u>132</u></u>

Called up share capital consists of funds raised by the Company issuing shares in return for cash or other consideration.

Available for sale reserve represents the accumulated change in fair value of available for sale financial assets.

Profit and loss account represents the accumulated profits of the Company.

Merger reserve arises on acquisition of a business, and represents the difference between the fair value of the investment and the nominal value of the shares issued.

The notes on pages 17 to 51 form an integral part of these financial statements.

# **Npower Limited**

## **Notes to the Financial Statements for the year ended 31 December 2015**

### **1 General information**

The Company is a private company limited by share capital incorporated in England and Wales and domiciled in the United Kingdom.

The address of its registered office is:

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

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

### **2 Accounting policies**

#### **Summary of significant accounting policies**

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

#### **Basis of preparation**

These financial statements were prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 (Reduced Disclosure Framework).

#### **Summary of disclosure exemptions**

- Paragraph 33(c) of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)
- IFRS 7 (Financial Instruments: Disclosures)
- Paragraph 38 of IAS 1 (Presentation of Financial Statements) to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1 (Presentation of Financial Statements)
  - (ii) paragraph 73(e) of IAS 16 (Property, Plant and Equipment)
  - (iii) paragraph 118(e) of IAS 38 Intangible Assets)
- The following paragraphs of IAS 1 (Presentation of Financial Statements):
  - (i) 10(d)
  - (ii) 10(f)
  - (iii) 16
  - (iv) 38A
  - (v) 38B-D
  - (vi) 40A-D
  - (vii) 111
  - (viii) 134-136

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Summary of disclosure exemptions (continued)**

- IAS 7 (Statement of Cash Flows)
- Paragraphs 30 and 31 of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)
- Paragraph 17 of IAS 24 (Related Party Disclosures)
- The requirements in IAS 24 (Related Party Disclosures) to disclose related party transactions entered into between two or more members of a group
- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 (Impairment of Assets).

Where required, equivalent disclosures are given in the group financial statements of RWE AG. The group financial statements of RWE AG are available to the public and can be obtained as set out in note 28.

##### **Going concern**

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 Npower Group plc. Npower Group plc has indicated that it intends to provide funds as are necessary for the Company to trade for the foreseeable future.

##### **Exemption from preparing group financial statements**

The financial statements contain information about Npower Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of its ultimate parent, RWE AG, a copy can be obtained from the address as detailed in note 28.

##### **Changes in accounting policy**

None of the standards, interpretations and amendments effective for the first time from 1 January 2015 have had a material effect on the financial statements.

##### **Turnover**

Turnover comprises the value of sales of goods and services, excluding VAT and other indirect taxes, in the normal course of business.

Turnover is recognised at the point of supply of electricity and related services to customers.

##### **Interest**

Interest receivable and payable is credited or charged to the Profit and Loss Account on an accruals basis.

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Other operating income**

Credit balances relating to ex Npower Business and Npower Business Solutions customers who are no longer supplied by the Company (known as final credits) are transferred to provisions for liabilities and charges after 12 months. Prior to this rigorous procedures to trace the lost customer are undertaken. If these procedures prove unsuccessful, the balance is released to the Profit and Loss Account with a percentage being retained to cover any future claims. The procedure is consistent across the Retail Group although the percentage varies per business area and is reviewed annually.

Prior to April 2014 a similar policy applied to domestic customers as for Npower Business and Npower Business Solutions. With effect from April 2014, the Company no longer releases eligible customer credits to the Profit and Loss Account for domestic customers. Instead, once eligible customer credits reach the age in which they would be released according to npower credit policy they are instead transferred to provisions for liabilities and charges to be utilised in future helping vulnerable customers through the npower Energy Fund and also customers affected by cancer through a Macmillan write off partnership.

##### **Taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

##### **Intangible assets**

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost. Prior to the Company's transition to FRS 101 goodwill was amortised in equal instalments over its useful economic life, normally not exceeding 20 years. Since 1 January 2015 the carrying value of goodwill is no longer subject to amortisation but is instead tested for impairment.

##### **Amortisation**

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

<b>Asset class</b>	<b>Amortisation method and rate</b>
Goodwill	Not amortised
Computer software	5 years
Intangible assets under construction	Not amortised

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Tangible assets**

Tangible assets are stated in the Balance Sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

##### **Depreciation**

Depreciation is charged so as to write off the cost of assets, other than land and assets under construction over their estimated useful lives, as follows:

<b>Asset class</b>	<b>Depreciation method and rate</b>
Land	Not depreciated
Buildings	40 years
Furniture, fittings and equipment	5 years
Other property, plant and equipment	5 years
Assets under construction	Not depreciated

##### **Investments**

Investments in securities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

##### **Available for sale investments**

Available for sale investments are stated at fair value with movements recognised within other comprehensive income, until disposed of at which point the cumulative gain/loss is recycled through the profit and loss account.

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Impairment of non-financial assets**

The Company's management reviews the carrying amounts of its fixed assets, which includes tangible assets and investments, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss.

If the recoverable amount of an asset or income generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or income generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the Profit and Loss Account.

The recoverable amount of an asset is based on its estimated value in use. Value in use is the present value of the future cash flows expected to be derived from use of the asset. The cash flow projections are based on future economic and market assumptions and forecast trading conditions drawn up by the Company's management as follows:

- Future market conditions and prices are based on detailed analysis and predictions prepared by RWE economists based on the specific circumstances of the UK retail energy market
- Cash flow projections are based on management's approved long term business plan which incorporate the predictions of future market conditions above
- The cash flows obtained are discounted at a rate estimated to be appropriate for the retail energy business in the UK

Where an impairment loss subsequently reverses the carrying amount of the asset is increased to the revised estimate of its recoverable amount, not exceeding the carrying amount that would have been determined had no impairment loss been recognised. A reversal of an impairment loss is recognised in the Profit and Loss Account.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### **Trade debtors**

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debt.

##### **Trade creditors**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Borrowings**

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the profit and loss account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

##### **Provisions**

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

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

##### **Called up share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

##### **Defined contribution pension obligation**

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

##### **Defined benefit pension obligation**

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in profit or loss.



## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Operating leases**

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

##### **Share based payments**

The group operates an equity-settled, share-based compensation plan, under which the group receives services from employees as consideration for equity instruments (options) of the ultimate parent company. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium of the ultimate parent company when the options are exercised and an intercompany liability to the parent company is recognised.

The Company also operates a cash-settled compensation plan (BEAT). Certain employees of the Company are awarded options over performance shares which are linked to the performance of the shares in the ultimate parent undertaking, RWE AG. The fair value of the employee services received in exchange for these grants of options is recognised as a provision and expensed in the Profit and Loss Account. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Company revises its estimates and recognises the impact of the revision to original estimates, if any, in the Profit and Loss Account, with a corresponding adjustment to its provision.

##### **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. The Company does not recognise a contingent liability but discloses its existence in the financial statements.

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Derivative financial instruments**

Derivative financial instruments are recognised as assets or liabilities. All derivative financial instruments are measured at fair value regardless of their purpose. Changes in the fair value are recognised with an effect on the profit and loss account.

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

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

Future power and commodity positions are forward traded in line with expected future volume delivery/usage. These trades may be bought and sold as the forward market changes, hence there is a practice of net settlement. In line with IAS39 all unrealised trading positions at balance sheet date are recognised at fair value and held on balance sheet as a liability or asset with year on year movement through the profit and loss account.

#### **3 Critical accounting judgements and key sources of estimation uncertainty**

##### **Turnover**

In accounting for energy turnover and direct costs, the Company employs a forecasting process using forecast models to calculate the energy accruals required at the financial 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 where necessary. The actual billings and costs are compared with the estimates in hindsight and adjustments made where material.

In recognition of the systems and process transformations that the Company has undertaken, including the associated implications from late invoicing and associated backlogs, the reliance on the estimation of unbilled turnover is significant, particularly for the domestic segment. Management are proactively working to reduce the amount of estimation and continue to review and refine the estimation techniques employed.

#### **4 Turnover**

The Company operates in one class of business, marketing and supply of electricity and related services, and in one geographical segment, the United Kingdom. The analysis of the company's turnover for the year from continuing operations is as follows:

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Sale of goods	3,575	3,547
Other turnover	90	75
	<u>3,665</u>	<u>3,622</u>

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2015 (continued)****5 Other operating income**

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

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Final customer credits	<u>3</u>	<u>6</u>

Included in the final customer credits are balances relating to valid credits to customers who are no longer supplied by the Company. Despite carrying out rigorous procedures over 12 months the Company has been unable to trace these customers and consequently these amounts have been written back to the Profit and Loss Account in accordance with the accounting policy note explained in note 2. A percentage is retained as a provision to meet any obligation that may arise from ex Npower Business and Npower Business Solutions customers re-establishing contact with the Company as displayed in note 24.

**6 Unrealised gains/(losses) of financial derivatives**

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Gain/(loss) on unrealised valuation of commodity derivatives	27	(46)
Loss on unrealised valuation of weather derivatives	<u>(2)</u>	<u>-</u>
	<u>25</u>	<u>(46)</u>

**7 Other gains and losses**

The analysis of the company's other gains and losses for the year is as follows:

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Gain on disposal of property, plant and equipment	<u>9</u>	<u>-</u>

**8 Operating (loss) / profit**

Operating (loss) / profit is arrived at after charging/(crediting):

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Depreciation expense	2	1
Amortisation expense	134	8
Operating lease expense - property	3	2
Operating lease expense - other	2	-
Profit on disposal of property, plant and equipment	<u>(9)</u>	<u>-</u>

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2015 (continued)****9 Auditors' remuneration**

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Audit of the financial statements	0.3	0.3
<b>Other fees to auditors</b>		
All other non-audit services	<u>0.4</u>	<u>0.4</u>

**10 Interest receivable and similar income**

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Interest income on bank deposits	1	-
Interest receivable from group undertakings	<u>5</u>	<u>3</u>
	<u>6</u>	<u>3</u>

**11 Interest payable and similar charges**

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Interest on bank overdrafts and borrowings	3	3
Other finance costs	-	3
Interest payable to group undertakings	<u>46</u>	<u>25</u>
	<u>49</u>	<u>31</u>

**12 Staff costs**

All Npower Retail Group employees, with the exception of the metering and home energy services businesses, are employed by Npower Limited. Employee costs are then recharged to other Retail entities via the group management charge. The aggregate payroll costs for Npower Limited (including directors' remuneration), after deduction of recharges to other Retail entities, were as follows:

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Wages and salaries	75	59
Social security costs	7	6
Other pension costs	28	17
Share-based payment expenses	<u>(1)</u>	<u>1</u>
	<u>109</u>	<u>83</u>

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2015 (continued)****12 Staff costs (continued)**

As employees may work across several legal entities, average staff numbers have been deduced based on the average employee cost for the Npower Retail Group. The notional average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2015 No.	2014 No.
Sales and administrative staff	<u>2,546</u>	<u>2,330</u>

**13 Directors' remuneration**

Details of the directors' aggregate remuneration for the year ended 31 December 2015 are set out below together with details of the highest paid director in the Npower Retail Group. In addition, compensation for loss of office of £0.5m was paid to the directors (2014: £nil).

	2015 £m	2014 £m
Aggregate emoluments	<u>1.8</u>	<u>2.0</u>

During the year the number of directors who were receiving pension benefits was as follows:

	2015 No.	2014 No.
Received or were entitled to receive shares under long term incentive schemes	-	-
Exercised share options	-	-
Accruing benefits under defined benefit pension scheme	5	5
Accruing benefits under defined contribution pension scheme	<u>4</u>	<u>3</u>

The accrued pension entitlement of the directors under the defined benefit pension scheme at 31 December 2015 was £165,200 (2014:£139,700).

The total cost of contributions paid into the defined contribution pension scheme for the year ended 31 December 2015 was £85,375 (2014:£103,500).

The directors, including the highest paid director, were not entitled to receive aggregate cash payments during the year (2014: not entitled) under long-term incentive schemes from the Company. None (2014: none) of the directors received or became entitled to receive shares in RWE AG under long-term incentive schemes in the financial year. No (2014: no) directors, including the highest paid director, exercised share options for shares in RWE AG in the financial year.

In respect of the highest paid director:

	2015 £	2014 £
Total emoluments	324,240	315,218
Company contributions to defined contribution pension scheme	-	28,400
Defined benefit accrued pension entitlement at the end of the year	62,200	-
Defined benefit accrued lump sum at the end of the year	89,700	-

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **14 Pension scheme funding**

##### ***Defined contribution pension scheme***

There is a defined contribution scheme; the Defined Contribution Section of the Npower Group of the ESPS. RWE Npower Holdings plc is the sponsoring entity for the Npower Group of the ESPS. During 2009, the decision was taken to close the defined benefit scheme described below to new entrants. New employees are now only able to participate in a defined contribution scheme.

During the year to 31 December 2015, the Retail Group has paid contributions of £4 million (2014 : £4 million) into the defined contribution scheme.

##### ***Defined benefit pension schemes***

###### **Description of the scheme**

The majority of pensions are funded through the defined benefit scheme within the Npower Group of the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS). It is a defined benefit scheme with assets invested in separate trustee-administered funds. The ESPS is divided into sections.

Npower Limited participates, along with other employers in the 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 on a reasonable and consistent basis primarily due to the following reasons:

- The allocation of non-active members (retired and deferred) to any one employer is not possible on an accurate and practicable basis due to the privatisation and subsequent restructuring of the electricity industry. Non active members made up approximately 86% of the scheme membership as at 31 March 2013; and
- No one employer dominates the overall scheme in terms of payroll cost. The share of scheme pensionable salary for the subsidiaries of Npower Group plc ("Retail Group") is approximately 40%.

These circumstances have meant that the last actuarial valuation in 2013 was not prepared on an individual entity basis and it would also not be possible to prepare the next one on an individual entity basis either. The scheme is accounted for as a defined benefit multi-group scheme under IAS 19R (Employee Benefits) by RWE Npower Holdings plc and as a defined contribution scheme by RWE Npower Holdings plc's direct and indirect subsidiaries.

The last formal valuation of the scheme was carried out as at 31 March 2013. At that date the deficit of the whole scheme was £563 million giving a funding ratio of 89%. Independent actuaries have assessed the IAS 19R position as at 31 December 2015 for the scheme as a whole by updating the last formal valuations using methods appropriate for IAS 19R. As at 31 December 2015 there was a deficit of £499 million (2014: £604 million).

During the year ended 31 December 2015, the subsidiaries of the Retail Group contributed to the four defined benefit sections of the ESPS at a weighted average rate of 16% of members' pensionable earnings. Contributions towards administrative expenses for the scheme became payable as a lump sum rather than as a percentage of pensionable salaries in 2015. The first such lump sum was paid in March 2015. Prior to 30 June 2014 a contribution of 0.9% of pensionable earnings was paid towards administrative expenses.

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2015 (continued)****14 Pension scheme funding (continued)**

The Npower Limited cost of contributions (inclusive of contributions towards administrative expenses) during the financial year was £27 million (2014: £16 million) which includes additional contributions required to reduce the whole scheme deficit.

There were no prepaid or accrued contributions at 31 December 2015 or 31 December 2014.

**15 Tax on loss on ordinary activities**

Tax income/(expense) in the profit and loss account:

	2015 £ m	2014 £ m
<b>Current taxation</b>		
Group relief payable/(receivable)	2	(3)
Adjustments in respect of previous years	4	14
Total current tax charge	<u>6</u>	<u>11</u>
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	(12)	5
Derecognition of deferred tax asset recognised in prior year	1	-
Adjustments in respect of previous years	(5)	(10)
Impact of change in UK tax rate	5	-
Total deferred tax credit	<u>(11)</u>	<u>(5)</u>
Total tax expense/(credit)	<u>(5)</u>	<u>6</u>

The tax assessed on loss on ordinary activities before taxation for the year is higher than the standard rate of corporation tax in the UK (2014 - higher than the standard rate of corporation tax in the UK) of 20.25% (2014 - 21.5%).

The differences are reconciled below:

	2015 £ m	2014 £ m
(Loss)/profit on ordinary activities before tax	<u>(44)</u>	<u>3</u>
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	(9)	1
Expenses not deductible for tax purposes	1	2
Derecognition of deferred tax asset recognised in prior year	1	-
Impact of changes in UK tax rate	5	-
Adjustments in respect of prior years	(1)	3
Income not taxable - disposal of building	<u>(2)</u>	<u>-</u>
Total tax (credit)/charge	<u>(5)</u>	<u>6</u>

**Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

	2015 £ m	2014 £ m
<b>Tax included in Other Comprehensive Income</b>		
Loss recorded in Other Comprehensive Income	-	(2)
Loss recorded in Other Comprehensive Income multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	-	-
<b>Total tax charge included in Other Comprehensive Income</b>	<b>-</b>	<b>-</b>

During the year, the relevant deferred tax balances have been re-measured as a result of the change in the main rate of corporation tax to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020. These rate reductions were substantively enacted on 26 October 2015 prior to the balance sheet date.

**Debtors: Amounts falling due after more than one year**

2015	Asset £ m
Accelerated tax depreciation	28
Other items	16
	<u>44</u>
	<u><u>44</u></u>
2014	Asset £ m
Accelerated tax depreciation	9
Other items	24
	<u>33</u>

	2015 £ m	2014 £ m
To be recovered within 12 months	-	-
To be recovered after more than 12 months	44	33
	<u>44</u>	<u>33</u>



**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2015 (continued)****15 Tax on loss on ordinary activities (continued)***Deferred tax movement during the year:*

	At 1 January 2015 £ m	Recognised in profit and loss account £ m	At 31 December 2015 £ m
Accelerated tax depreciation	9	19	28
Other items	24	(8)	16
Deferred tax assets	<u>33</u>	<u>11</u>	<u>44</u>

*Deferred tax movement during the prior year:*

	At 1 January 2014 £ m	Recognised in profit and loss account £ m	At 31 December 2014 £ m
Accelerated tax depreciation	11	(2)	9
Other items	17	7	24
Deferred tax assets	<u>28</u>	<u>5</u>	<u>33</u>

# Npower Limited

## Notes to the Financial Statements for the year ended 31 December 2015 (continued)

### 16 Intangible assets

	Goodwill £ m	Computer software £ m	Intangible assets under construction £ m	Total £ m
<b>Cost</b>				
At 1 January 2014	156	110	123	389
Additions	-	-	122	122
Disposals	-	-	(4)	(4)
Transfers	-	13	(11)	2
At 31 December 2014	156	123	230	509
At 1 January 2015	156	123	230	509
Additions	-	-	134	134
Disposals	-	(94)	(1)	(95)
Transfers	-	282	(282)	-
At 31 December 2015	156	311	81	548
<b>Accumulated amortisation</b>				
At 1 January 2014	-	93	-	93
Amortisation charge	-	8	-	8
Transfers	-	1	-	1
At 31 December 2014	-	102	-	102
At 1 January 2015	-	102	-	102
Amortisation charge	-	134	-	134
Disposal	-	(94)	-	(94)
At 31 December 2015	-	142	-	142
<b>Carrying amount</b>				
At 31 December 2015	156	169	81	406
At 31 December 2014	156	21	230	407
At 1 January 2014	156	17	123	296

In accordance with IAS 38 (Intangible Assets) computer software is now included within intangible fixed assets compared to tangible fixed assets, prescribed by previously applied UK GAAP, in the original financial statements for the year ended 31 December 2014. Assets under construction have now been reclassified between tangible fixed assets and intangible fixed assets on the basis of what is being built. Software development and similar assets under construction have been reclassified to intangible assets under construction and other asset under construction projects remain in tangible assets under construction.

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2015 (continued)****16 Intangible assets (continued)**

In the third quarter of every fiscal year, an impairment test is performed to determine if there is any need to write down goodwill. In this test, goodwill is allocated to the single cash-generating unit of the Npower Retail Group. The recoverable amount of the cash-generating unit is determined, which is defined as the higher of fair value less costs to sell or value in use. Fair value is the best estimate of the price that an independent third party would pay to purchase the cash-generating unit as of the balance sheet date. Value in use reflects the present value of the future cash flows which are expected to be generated with the cash-generating unit.

As of the balance sheet date, the recoverable amount was higher than the carrying amount of the cash-generating unit. These surpluses react especially sensitively to changes in the discount rate, the growth rate and the operating result after taxes in terminal value.

# **Npower Limited**

## **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

### **17 Tangible assets**

	Land and buildings £ m	Furniture, fittings and equipment £ m	Assets under construction £ m	Other property, plant and equipment £ m	Total £ m
<b>Cost</b>					
At 1 January 2014	-	17	7	1	25
Additions	-	-	3	-	3
Transfers	-	(1)	(1)	-	(2)
At 31 December 2014	-	16	9	1	26
At 1 January 2015	-	16	9	1	26
Additions	24	-	1	-	25
Disposals	(24)	-	-	-	(24)
Transfers	1	7	(9)	2	1
At 31 December 2015	1	23	1	3	28
<b>Accumulated depreciation</b>					
At 1 January 2014	-	11	-	1	12
Charge for year	-	1	-	-	1
Transfers	-	(1)	-	-	(1)
At 31 December 2014	-	11	-	1	12
At 1 January 2015	-	11	-	1	12
Charge for the year	-	2	-	-	2
Transfers	1	-	-	-	1
At 31 December 2015	1	13	-	1	15
<b>Carrying amount</b>					
At 31 December 2015	-	10	1	2	13
At 31 December 2014	-	5	9	-	14
At 1 January 2014	-	6	7	-	13

The Company also owns land and buildings with a cost of £0.4 million. These assets have been fully depreciated.

**Npower Limited**  
**Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

**18 Investments**

	<b>Subsidiary undertakings £ m</b>
<b>Cost or valuation</b>	
At 1 January 2014	28
At 31 December 2014	28
At 1 January 2015	28
Additions	5
At 31 December 2015	33
<b>Carrying amount</b>	
At 31 December 2015	33
At 31 December 2014	28

Details of the subsidiaries as at 31 December 2015 are as follows:

<b>Name of subsidiary</b>	<b>Principal activity</b>	<b>Country of incorporation and principal place of business</b>	<b>Proportion of ownership interest and voting rights held</b>	
			<b>2015</b>	<b>2014</b>
Npower Gas Limited	Energy supplier	England and Wales	100%	100%
Npower Commercial Gas Limited	Energy supplier	England and Wales	100%	100%
Npower Financial Services Limited	Financial services	England and Wales	100%	100%
Plus Shipping Supply Limited	Gas shipping	England and Wales	100%	100%
RUMM Limited	Energy management solutions	England and Wales	100%	0%
PS Energy Limited	Energy supplier	England and Wales	100%	0%

Investments in group undertakings are stated at cost. The directors believe that the carrying value of the investments is supported by their underlying net assets and future expected cash flows from trading.

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **18 Investments (continued)**

On 31 March 2015 the Company acquired 100% of the voting shares of RUMM Limited, a private company based in Wales. The purchase was made to strengthen the group's customer offering in the Energy Solutions market. RUMM Limited was acquired for consideration of £5m satisfied in cash. Further consideration up to a maximum of £3m is payable, dependent on the achievement of profit targets before 31 August 2018. No provision has been made for further consideration at this stage. At 31 December 2015 there is insufficient evidence to confirm that profit targets will be met for the directors to be able to state that the likelihood of payment is probable or can be reliably estimated.

#### **19 Debtors: Amounts falling due within one year**

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Trade debtors	160	169
Amounts owed by group undertakings	790	1,379
Loans owed by group undertakings	249	98
Accrued income	417	425
Prepayments	17	13
Other debtors	24	22
Total debtors	<u>1,657</u>	<u>2,106</u>

Included within debtors above are amounts due after more than one year. These amounts are detailed below:

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
<b>Debtors due after more than one year</b>		
Other debtors	-	23
	<u>-</u>	<u>23</u>

Loans owed by group undertakings are unsecured, bear interest at 4.0% (2014: 4.0%) and are repayable within one year.

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

Amounts owed by group undertakings include £11 million of group relief receivable (2014: £nil).

#### **20 Available for sale financial assets**

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Telecom Plus plc shares	<u>5</u>	<u>5</u>

Available for sale financial assets are stated at fair value. The Company holds 426,989 shares in Telecom Plus plc (2014: 426,989 shares). The investment is recorded at fair value, as at 31 December 2015 this was £4,573,052 (2014: £5,388,601), based on a closing mid market price of £10.71 per ordinary share (2014: £12.62 per ordinary share).

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2015 (continued)****21 Creditors: Amounts falling due within one year**

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Trade creditors	45	28
Accrued expenses	606	517
Amounts owed to group undertakings	338	457
Social security and other taxes	97	72
Customer payments in advance	117	136
Loans and borrowings	809	1,169
Total creditors	<u>2,012</u>	<u>2,379</u>

Loans owed to group undertakings are unsecured, bear interest between 0.0% and 4.0% (2014: 0.0% and 4.0%) and are repayable within one year.

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

Amounts owed to group undertakings include £nil of group relief payable (2014: £9 million).

**22 Obligations under leases and hire purchase contracts****Operating leases**

The total future value of minimum lease payments is as follows:

	<b>2015</b>	<b>2014</b>
	<b>£ m</b>	<b>£ m</b>
Within one year	3	4
In two to five years	7	10
In over five years	-	1
	<u>10</u>	<u>15</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £5 million (2014: £2 million)

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **23 Share-based payments**

##### **BEAT**

###### ***Scheme description***

In the year under review the Company operated a cash-settled scheme, long-term incentive plan "BEAT".

The fair value of the provision in respect of BEAT relating to Retail Group employees who were legally employed by RWE Generation UK plc was included within the financial statements of RWE Generation UK plc until 30 September 2014. RWE Generation UK plc recharged the Retail Group for the expenses of its employees until that date.

On 1 October 2014, employees that were legally employed by RWE Generation UK plc but worked exclusively for the Retail Group had their contracts of employment transferred to Npower Limited. From this date, the fair value of the provision in respect of BEAT for Retail Group employees, is included within the financial statements of Npower Limited.

##### **BEAT**

##### **2015 tranche**

Grant date	01/01/15
Number of conditionally granted performance shares	122,588
Term	4 years

The total number of conditionally granted performance shares, in respect of 2011, 2012, 2013 and 2014 tranches, granted to employees working exclusively for the Retail Group but legally employed by RWE Generation UK plc up to 1 October 2014, is included within the notes to the financial statements of RWE Generation UK plc.

###### ***Pay-out conditions***

An automatic pay-out occurs if, following a waiting period of four years (for 2011, 2012, 2013, 2014 and 2015 tranches), an out-performance of at least 25% compared to the Dow Jones STOXX Utilities Index peer group has been achieved, measured in terms of their index weighting as of the inception of the programme. Measurement of out-performance is carried out using Total Shareholder Return (TSR), which takes into account both the development of the share price and reinvested dividends. During the financial year the pay-out conditions were not achieved. Therefore no employee became entitled to receive cash payments under long-term incentive schemes.



## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **23 Share-based payments (continued)**

##### ***Determination of payment***

The index weighting of the peer group companies, which exhibit a lower TSR than RWE at the end of the term, is calculated.

Performance factor is calculated by squaring this percentage rate and multiplying it by 1.25.

Total number of performance shares which can be paid out is calculated by multiplying the performance shares conditionally granted by the performance factor.

Payment corresponds to the final number of performance shares valued at the average RWE share price during the last 20 trading days prior to expiration of the programme (with a ceiling of two times the value of the performance shares as of the grant date, for the 2011, 2012, 2013, 2014 and 2015 tranches).

##### ***Changes in corporate control***

If during the waiting period there is a change in corporate control, a compensation payment is made. This is calculated by multiplying the price paid in the acquisition of the RWE shares by the final number of performance shares. The latter shall be determined as per the regulations of the compensation plan with regard to the time when the bid for corporate control is submitted.

In the event of merger with another company, compensation shall be calculated on the basis of the expected value of the performance shares at the time of the merger multiplied by the prorated number of performance shares corresponding to the ratio between the total waiting period and the waiting period until the merger takes place.

##### ***Form of settlement - cash***

The fair value of the performance shares conditionally granted in the BEAT programme amounted to €5.05 per share as of the grant date for the 2015 tranche, €7.44 per share for the 2014 tranche, €8.09 per share for the 2013 tranche, €6.66 per share for the 2012 tranche and €17.01 per share for the 2011 tranche. These values were calculated externally using a standard multivariate Black-Scholes model via Monte Carlo simulations on the basis of one million scenarios each. In the calculations, due consideration was taken of the maximum payment stipulated in the programme's conditions for each conditionally granted performance share, the discount rates for the remaining term, the volatilities and the expected dividends of peer companies as well as the expected dividends of RWE AG.

The fair value of the provision in respect of BEAT included within the financial statements at 31 December 2015 is £nil (2014: £1m).

## Npower Limited

### Notes to the Financial Statements for the year ended 31 December 2015 (continued)

#### 23 Share-based payments (continued)

##### Sharesave scheme

###### *Scheme description*

In the year under review the share-based payment schemes for executives and employees of Npower Limited operated an equity-settled scheme, a SAYE sharesave scheme, where the employee receives options in the share capital of RWE AG. The share based payment scheme is accounted for and operated by Npower Limited and the costs of the scheme are recharged to the other Retail group entities.

	<b>2013 tranche</b>
Grant date	12/07/2013
Max numbers of options granted	346,629
Term	3 years
Vesting conditions	Waiting period: 3 years
Exercise price (£ per share)	17.73
Form of settlement	Existing shares
	<b>2013 tranche</b>
Balance at start of the fiscal year	234,866
Grant during the year	-
Forfeited during the year	-
Exercised during the year	(312)
Expired during the year	(69,370)
Balance at the end of the fiscal year	165,184
Exercisable at the end of the fiscal year	1,573

The average weighted share price as of the exercise date amounted to €24.26 for the options from the sharesave scheme exercised in the previous fiscal year. The exercise prices of the options from the sharesave scheme outstanding as of the Balance Sheet date were €24.16. The weighted average remaining contractual term amounted to 0.67 years.

The fair value of the liability arising from the employee services received in respect of the 2013 tranche of sharesave scheme included within the financial statements of Npower Limited at 31 December 2015 is £1m (2014: £1m).

The fair value of the liability arising from the employee services received in respect of the 2011 and 2012 tranches of the sharesave scheme is included within the financial statements of RWE Generation UK plc. RWE Generation UK plc then recharges the Retail Group for the expenses of its employees.

In the year under review, the total credit (2014: expense) for share based payment schemes for the Retail Group amounted to £1m (2014: £2m) of which £nil (2014: £1m) was recharged from other group companies. As a result of the transfer of employment contracts on 1 October 2014, and the subsequent creation of the associated BEAT provision, none of the 2015 BEAT credit and 2014 BEAT expense has been recharged to/from other group companies. In respect of these recharges, £nil (2014: £1 million) was cash-settled by Npower Limited.

The Retail Group did not operate a new tranche of the scheme in 2015 or 2014.

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2015 (continued)****24 Provisions for liabilities**

	<b>Liabilities and claims £ m</b>	<b>Restructuring £ m</b>	<b>Other provisions £ m</b>	<b>Final customer credits £ m</b>	<b>Total £ m</b>
At 1 January 2015	7	8	2	3	20
Increase (decrease) in existing provisions	4	8	1	1	14
Provisions used	-	(11)	-	-	(11)
Unused provision reversed	-	(1)	(2)	(2)	(5)
At 31 December 2015	<u>11</u>	<u>4</u>	<u>1</u>	<u>2</u>	<u>18</u>

Final customer credits relate to remaining customer balances which arise from various circumstances including customer debt which has previously been provided against and subsequently recovered, or where management's ability to raise a final bill following the loss of a customer is prevented because of the absence of final meter readings, or where overpayments have been made by lost customers for whom there is no forwarding address or other contact details. The amount retained in provisions represents management's assessment of potential claims from lost customers who re-establish contact with the Company, and is expected to be utilised over six years.

The restructuring provision represents the provision for redundancy and related costs in respect of business re-organisation, which is expected to be utilised within 12 months.

The liabilities and claims provision relate to ongoing investigations by and potential claims from organisations into certain aspects of the npower Retail Group's activities. The amount provided represents management's best estimate of the amounts required to settle any potential costs arising from these claims and investigations and are expected to be utilised within 12 months.

Other provisions include liabilities held by Npower Limited with regard to share based incentive schemes.

Provisions have not been discounted by the directors as the impact is not material.

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2015 (continued)****25 Called up share capital****Allotted, called up and fully paid shares**

	No.	2015 £	No.	2014 £
Ordinary shares of £1 each (2014: £1 each)	<u>1,000,001</u>	<u>1,000,001</u>	<u>1,000,001</u>	<u>1,000,001</u>

**26 Contingent liabilities**

In the normal course of business the Company has provided parent company guarantees on behalf of its subsidiaries. As at 31 December 2015 the total value of these guarantees amounted to £15 million (2014: £32 million).

There were bank issued letters of credit issued on the company's facilities. As at 31 December 2015, the total value of these letters of credit amounted to £27 million (2014: £nil).

All of the above guarantees are in place as security against the subsidiary companies failing to meet certain payment obligations. It is considered to be very unlikely that any event will occur that gives rise to any of the guarantees being affected.

# Npower Limited

## Notes to the Financial Statements for the year ended 31 December 2015 (continued)

### 27 Derivative financial liabilities

At 31 December 2015, derivative financial liabilities outstanding related to power trades and swaps. The derivative financial liabilities expire over the period 2016 to 2019.

	2015 £ m	2014 £ m
Commodity derivatives	63	90
Weather derivatives	2	-
	<u>65</u>	<u>90</u>

Npower Limited mitigates its exposure to commodity price movements through hedging, in line with RWE Group policy.

### Financial instruments by category

2015	Loans & receivables £ m	Available for sale £ m	Total £ m
<b>Assets as per balance sheet</b>			
Available for sale financial assets	-	5	5
Trade & other receivables excluding prepayments	1,640	-	1,640
Cash & cash equivalents	30	-	30
Total	<u>1,670</u>	<u>5</u>	<u>1,675</u>

2015	Other financial liabilities at amortised cost £ m	Total £ m
<b>Liabilities as per balance sheet</b>		
Derivative weather instruments	2	2
Derivative commodity instruments	63	63
Borrowings	809	809
Trade and other payables excluding non-financial liabilities	1,205	1,205
Total	<u>2,079</u>	<u>2,079</u>

2014	Loans & receivables £ m	Available for sale £ m	Total £ m
<b>Assets as per balance sheet</b>			
Available for sale financial assets	-	5	5
Trade & other receivables excluding prepayments	2,095	-	2,095
Cash & cash equivalents	28	-	28
Total	<u>2,123</u>	<u>5</u>	<u>2,128</u>

**Npower Limited**

**Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

**27 Derivative financial liabilities (continued)**

<b>2014</b>	<b>Other financial liabilities at amortised cost</b>	<b>Total</b>
<b>Liabilities as per balance sheet</b>	<b>£ m</b>	<b>£ m</b>
Derivative commodity instruments	90	90
Borrowings	1,169	1,169
Trade and other payables excluding non-financial liabilities	1,212	1,212
<b>Total</b>	<b>2,471</b>	<b>2,471</b>

**Valuation methods and assumptions**

Commodity and weather derivatives:

The following overview presents the main parameters for the measurement of financial instruments recognised at fair value. In accordance with IFRS 7, the individual levels are defined as follows:

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

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

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>2015</b>	<b>2015</b>	<b>2015</b>	
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Weather derivatives	-	2	-	2
Commodity derivatives	-	63	-	63
<b>Total</b>	<b>-</b>	<b>65</b>	<b>-</b>	<b>65</b>

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>2014</b>	<b>2014</b>	<b>2014</b>	
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Weather derivatives	-	-	-	-
Commodity derivatives	-	90	-	90
<b>Total</b>	<b>-</b>	<b>90</b>	<b>-</b>	<b>90</b>

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2015 (continued)****27 Derivative financial liabilities (continued)**

The maturity profile of the financial assets / (liabilities) is as follows:

	Assets/ (liabilities) at fair value through profit and loss 2015 £ m	Assets/ (liabilities) at fair value through profit and loss 2014 £ m
Due within one year	(25)	(50)
Due in more than one year and less than two years	(32)	(31)
Due in more than two years and less than five years	(8)	(9)
Total	<u>(65)</u>	<u>(90)</u>

**Financial risk management****a) Commodity price risk**

The Company is exposed to commodity price risk as a result of its operations. The risk is actively managed through the application of appropriate techniques and methodologies in accordance with the Commodity Risk Controlling Directive of the Company's ultimate parent RWE AG. These techniques and methodologies include the application of appropriate hedge policies, the measurement of commodity risks, the setting of approved transaction limits (together with the monitoring of compliance with the approved limits), the reporting of unhedged positions and the conduct of scenario analyses and stress tests. The hedge policies determine the timing of the purchase of physical forward contracts for power and gas to cover customers' supply requirements. Financial contracts are typically also purchased to manage the impact of weather variations on customer demand.

**b) Credit risk**

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

None of the financial assets are past due or impaired as at 31 December 2015.

**c) Liquidity risk**

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

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

# Npower Limited

## Notes to the Financial Statements for the year ended 31 December 2015 (continued)

### 27 Derivative financial liabilities (continued)

#### Gross value of assets and liabilities

##### (a) Financial assets

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

	Gross amounts of recognised financial assets £ m	Gross amounts of financial liabilities set off in the balance sheet £ m	Net amounts of financial assets presented in the balance sheet £ m
<b>As at 31 December 2015</b>			
Commodity derivatives	134	(134)	-
<b>Total</b>	<b>134</b>	<b>(134)</b>	<b>-</b>

	Gross amounts of recognised financial assets £ m	Gross amounts of financial liabilities set off in the balance sheet £ m	Net amounts of financial assets presented in the balance sheet £ m
<b>As at 31 December 2014</b>			
Commodity derivatives	58	(58)	-
<b>Total</b>	<b>58</b>	<b>(58)</b>	<b>-</b>

##### (b) Financial liabilities

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

	Gross amounts of recognised financial liabilities £ m	Gross amounts of financial assets set off in the balance sheet £ m	Net amounts of financial liabilities presented in the balance sheet £ m
<b>As at 31 December 2015</b>			
Weather derivatives	2	-	2
Commodity derivatives	197	(134)	63
<b>Total</b>	<b>199</b>	<b>(134)</b>	<b>65</b>

	Gross amounts of recognised financial liabilities £ m	Gross amounts of financial assets set off in the balance sheet £ m	Net amounts of financial liabilities presented in the balance sheet £ m
<b>As at 31 December 2014</b>			
Commodity derivatives	148	(58)	90
<b>Total</b>	<b>148</b>	<b>(58)</b>	<b>90</b>



## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **28 Controlling parties**

The company is controlled by Npower Group plc (the immediate parent), a company incorporated in Great Britain and registered in England and Wales.

The ultimate parent company and controlling party is RWE AG, a company incorporated in Germany, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of RWE AG consolidated financial statements can be obtained from RWE AG, Opernplatz 1, D-45128 Essen, Germany.

#### **29 Transition to FRS 101**

For the year ended 31 December 2015 the Company has adopted FRS 101. The effective transition date is 1 January 2014, being the first day of the comparative year. Accordingly the Company has conducted a detailed review of the accounting and disclosure requirements of FRS 101 and presents below details of any adjustments to the comparatives in the original signed 2014 statutory financial statements prepared under previous UK GAAP to the comparatives in these financial statements.

# Npower Limited

## Notes to the Financial Statements for the year ended 31 December 2015 (continued)

### 29 Transition to FRS 101 (continued)

#### Reconciliation of Balance Sheet as at 31 December 2014

	Under old UK GAAP £ m	Reclassification £ m	Adjustments £ m	Under FRS 101 £ m
<b>Fixed assets</b>				
Intangible assets (Note A, B)	128	251	28	407
Tangible assets (Note A)	265	(251)	-	14
Investments	28	-	-	28
	<u>421</u>	<u>-</u>	<u>28</u>	<u>449</u>
<b>Current assets</b>				
Debtors: Amounts falling due within one year (Note C, E)	2,106	-	-	2,106
Debtors: Amounts falling due after more than one year (Note G)	15	-	18	33
Available for sale financial assets (Note G)	-	-	5	5
Cash at bank and in hand	28	-	-	28
	<u>2,149</u>	<u>-</u>	<u>23</u>	<u>2,172</u>
Creditors: Amounts falling due within one year (Note C, D)	(2,379)	-	-	(2,379)
Derivative financial liabilities (Note F)	-	-	(90)	(90)
Net current liabilities	<u>(230)</u>	<u>-</u>	<u>(67)</u>	<u>(297)</u>
Total assets less current liabilities	191	-	(39)	152
Provisions for liabilities	<u>(20)</u>	<u>-</u>	<u>-</u>	<u>(20)</u>
Net assets	<u>171</u>	<u>-</u>	<u>(39)</u>	<u>132</u>
<b>Capital and reserves</b>				
Called up share capital	1	-	-	1
Merger reserve	30	-	-	30
Available for sale reserve (Note G)	-	-	5	5
Profit and Loss Account	140	-	(44)	96
Total shareholders' funds	<u>171</u>	<u>-</u>	<u>(39)</u>	<u>132</u>

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2015 (continued)****29 Transition to FRS 101 (continued)**

	01/01/2014 £ m	31/12/2014 £ m
<b>Reconciliation of Total Equity as at 31 December 2014</b>		
UK GAAP - as previously reported	165	171
Amortisation (Note B)	-	28
Holiday pay accrual (Note D)	-	-
Derivative financial instruments (Note F)	(44)	(90)
Deferred tax impact of adjustments (Note H)	9	18
Available for sale financial assets (Note G)	7	5
Reclassification - tangible assets to intangible assets (Note A)	140	251
Reclassification - intangible assets from tangible assets (Note A)	(140)	(251)
FRS 101	<u>137</u>	<u>132</u>

# **Npower Limited**

## **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

### **29 Transition to FRS 101 (continued)**

#### **Reconciliation of Profit and Loss Account for the year ended 31 December 2014**

	<b>Under old UK GAAP £ m</b>	<b>Reclassification £ m</b>	<b>Adjustments £ m</b>	<b>Under FRS 101 £ m</b>
Turnover (Note E)	4,498	(876)	-	3,622
Cost of sales (Note E)	<u>(4,164)</u>	<u>875</u>	<u>-</u>	<u>(3,289)</u>
Gross profit	334	(1)	-	333
Administrative expenses (Note B, D)	(291)	1	28	(262)
Other operating income	6	-	-	6
Unrealised losses of financial derivatives (Note F)	<u>-</u>	<u>-</u>	<u>(46)</u>	<u>(46)</u>
Operating profit	<u>49</u>	<u>-</u>	<u>(18)</u>	<u>31</u>
Other interest receivable and similar income	3	-	-	3
Interest payable and similar charges	<u>(31)</u>	<u>-</u>	<u>-</u>	<u>(31)</u>
	<u>(28)</u>	<u>-</u>	<u>-</u>	<u>(28)</u>
Profit/(loss) on ordinary activities before taxation	21	-	(18)	3
Tax on profit on ordinary activities (Note G)	<u>(15)</u>	<u>-</u>	<u>9</u>	<u>(6)</u>
Profit/(loss) for the financial year	<u>6</u>	<u>-</u>	<u>(9)</u>	<u>(3)</u>

**£ m**

#### **Reconciliation of Total Comprehensive Income for the year ended 31 December 2014**

UK GAAP as previously reported	6
Holiday pay accrual (Note D)	-
Derivative financial instruments (Note F)	(46)
Amortisation (Note B)	28
Deferred tax impact of adjustments (Note H)	<u>9</u>
FRS 101 Loss for the financial year	<u>(3)</u>
Revaluation of available for sale financial assets included in Statement of Comprehensive Income (Note G)	<u>(2)</u>
FRS 101 Total Comprehensive Income	<u>(5)</u>

Following the adoption of FRS 101 a full review of the classification of turnover, cost of sales and expenses has also been performed and adjustments made to the comparative result.

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2015 (continued)**

#### **29 Transition to FRS 101 (continued)**

Note A: Reclassification adjustments: In accordance with IAS 38, computer software is now included within intangible fixed assets compared to tangible fixed assets, prescribed by previous UK GAAP, in the original financial statements for the year ended 31 December 2014. Furthermore, assets under construction have been reclassified between intangible assets and tangible assets depending on the type of asset being built.

Note B: In accordance with IAS 38 (Intangible Assets), goodwill is no longer amortised and therefore goodwill of £28m in the original financial statements for the year ended 31 December 2014 has been reversed in the comparatives.

Note C: The fair value of the weather swap held by the Company is now included in the Profit and Loss Account in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). The value is £0.3 million and has been rounded to nil.

Note D: The financial statements also include a holiday pay accrual in accordance with IAS 19 (Employee Benefits). The value in the Profit and Loss Account is £0.1 million and has been rounded to nil.

Note E: Other reclassification adjustments in the table are considered more appropriate categorisations of certain revenues, costs, assets and liabilities as a result of the detailed review conducted upon transition to FRS 101.

Note F: Under IAS 39 the company is required to account for derivatives held with RWE AG. In the transition to FRS 101 a derivative financial liability has been accounted for of £44 million as at 1 January 2014 and £90 million as at 31 December 2014. The resulting charge is shown in the profit and loss account. The derivative financial liabilities (note 27) relate to power trades.

Note G: Available for sale assets were previously accounted for at cost. As part of the transition to FRS 101 these assets are now accounted for at fair value in the financial statements.

Note H: Deferred tax has also been remeasured as a result of the above remeasurement adjustments. No deferred tax arises on the fair value gain on the shares of £5 million as any capital gain should be reduced to nil through the use of capital losses.

#### **30 Reclassification of generation services**

The detailed review conducted upon transition to FRS101 identified that the company was accounting on a gross basis, showing both total cost and revenue, for the energy purchased in relation to the Generation Services business which is mainly supplied to the UK branch of RWE Supply and Trading GmbH rather than just the management fee margin. These transactions have now been reclassified within the accounts and the 2014 figures are now restated showing a reduction of £876 million in turnover and £875 million in cost of sales. This adjustment is included in note 29.