

Npower Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2014

Registered number: 3653277

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Npower Limited

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Npower Limited

Strategic Report for the year ended 31 December 2014

The directors present their strategic report on Npower Limited (the Company) for the year ended 31 December 2014.

Business review and future developments

The Company forms part of the Npower Retail Group. The Npower Retail Group consists of 6 main trading entities and 4 other trading entities which are detailed below:

Legal entity	Business Area			
	Domestic	Npower Business (formerly SME)	Npower Business Solutions (formerly I&C)	Other
Npower Limited	X		X	
Npower Northern Limited	X		X	
Npower Yorkshire Limited	X			
Npower Gas Limited	X			
Npower Commercial Gas Limited			X	
Npower Direct Limited		X		
Plus Shipping Services Ltd				X
Npower Business and Social Housing Ltd				X
Octopus Electrical Ltd				X
RWE Solutions Ireland Ltd				X

Across this Group of companies operating profit has decreased to £19 million during 2014 (2013: £102 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 2014 (continued)

Business review and future developments (continued)

Domestic

The Domestic energy market was very competitive in 2014 with a net loss of customers in part as a result of the continued growth of new entrants. The Group has also seen an increasing proportion of customers taking out fixed price products rather than the variable products and this is a trend we expect to continue.

Operating profit has reduced due to both the factors above alongside a milder winter in 2014, resulting in lower consumption. Furthermore, there has been a continued trend of lower per capita consumption as customers change their usage behaviours and the benefits from the energy efficient measures implemented in recent years.

The Government Autumn Statement of 2013 changed policy around delivery timeframes of the Energy Company Obligation (ECO) as well as the announcement of reduced network costs. The reduced costs for the Retail Group were passed onto consumers by way of a price cut in February 2014.

As announced in the 2013 Annual Report and financial statements, the Group planned to undertake an outsourcing of certain middle and back office functions to external service providers both inside and outside of the UK. Whilst this arrangement is now up and running, the costs of transition were higher than expected and reflected in our administrative costs.

We experienced a number of issues as a result of the implementation of our new billing system, which led to significant late invoicing and associated backlogs. Significant effort and focus was put towards clearing this backlog to under 100,000 bills by August 2014. As a result of increased complaint numbers, we were required by The Office of Gas and Electricity Markets (OFGEM) to reduce backlogs and complaints to an acceptable level, which was achieved within the timescales set by the regulators.

We are relentlessly working on improving our systems and processes to improve customer experience and reduce costs.

Npower Business (formerly SME)

During 2014 the SME business segment rebranded itself to better reflect customer expectations and give clearer communication to our chosen market. This segment is now known as Npower Business.

2014 saw a period of significant operational change for Npower Business. The auto renewal of customer contracts ended in November 2014, a significant part of our operation was transferred to our partners in South Africa and we launched a number of new power products better matched to the current market and to our customers' needs.

We saw steady customer number growth through this period and a material reduction in the number of employees in the business. We are pleased to report that the satisfaction of our customers increased significantly through the course of the year.

Operating profit in 2014 was below that experienced in the prior year driven mainly by the colder weather seen during 2013. Looking forward, we expect continued margin pressure from competition in the post auto-rollover market and modest improvements in returns from the business as the effects of the changes noted above feed through into our financial results.

Throughout 2015 we will continue to focus on improving customer experience as well as making our business more efficient and we expect to finish the year with more customers being served in a more cost effective manner.

Npower Limited

Strategic Report for the year ended 31 December 2014 (continued)

Business review and future developments (continued)

Npower Business Solutions (formerly I&C)

During 2014, the I&C business segment rebranded itself to better reflect customer expectations and the transition of the business in the year. This segment is now known as Npower Business Solutions.

2014 operating result was lower than prior year. The commodity energy supply area (Core Retail) experienced a challenging year with earnings adversely impacted by lower customer consumption, in line with national average demand reductions, and a continued trend of tightening margins arising from competition by new entrants aggressively pricing to grow portfolio volume.

In spite of these market pressures, Npower Business Solutions has maintained market share in the Power Flexible Pricing Market and has simultaneously grown market share in both the Power Fixed Price Market and Gas Market. Improving contract retention rates across the portfolio are mirrored in increasing customer satisfaction scores.

Partially mitigating the Core Retail earnings performance, 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.

Earnings in the Energy Solutions business area were stable, where the focus has been on building and transitioning capabilities, internal organisation structure and technologies to fully support an integrated energy solution offering to the market.

General

The Group has been operating under significant political, regulatory and media scrutiny throughout the year. OFGEM launched a consultation on referring the energy market to the Competition and Markets Authority (CMA), which closed on 23 May 2014. Subsequently on 26 June 2014 OFGEM referred the energy market to the CMA for a full competition investigation. The Group has been co-operating fully with the CMA in its investigation and its provisional findings were published on 7 July 2015. The CMA's final report is due to be published by the end of 2015. Energy was also a key topic in the run-up to the 2015 general election with the Labour Party committing to an energy price freeze in their manifesto, irrespective of the findings of the CMA investigation into competition in the energy market.

The Group continues to pursue its strategy of both improving customer services and delivering real, sustainable cost efficiencies and savings. As reported last year we continued with our Customer Transformation Programme but also outsourced elements of our customer services operations to third parties both within the UK and outside of the UK. A pilot was also initialised in the second half of the year to assess the feasibility of outsourcing elements of the Npower Business customer service activity.

On the face of it the Group's administrative expenses have reduced year on year, however a number of factors are evident in this reduction. Previously the Group recognised charges in relation to a large commercial arrangement as a part of administrative expenses. However, following changes to the commercial terms, this is now recognised as a reduction to revenue. Charges for the ECO are also lower in 2014 than 2013, primarily as a result of delivering a higher volume of measures in 2013 alongside a change in legislative requirements. After excluding these two effects the operating expenditure has increased driven in the main by the cost of resolving the late invoicing and complaints issues in the Domestic business.

The directors do not expect there to be any significant changes in the future developments of the Group, although will be continuing with their focus on making the business more efficient whilst improving the overall experience for its customers.

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Strategic Report for the year ended 31 December 2014 (continued)

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.

The 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 wholesale prices is the main uncertainty faced by the Company. Detailed discussions of these risks and opportunities, in the context of the RWE AG Group as a whole, are provided on pages 75 through 86 of the RWE AG 2014 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.

Key performance indicators (KPIs)

The directors of Npower Limited 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 Npower Limited 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 Npower Limited.

Approved by the Board on 30 July 2015 and signed on its behalf by:



Mr R Rose
Director

Npower Limited

Directors' Report for the year ended 31 December 2014

The directors present their report and the audited financial statements for the year ended 31 December 2014.

Principal activities

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

Results and dividends

The Company's profit for the financial year ended 31 December 2014 is £5.9 million (2013: £338.3 million). The directors do not recommend the payment of a dividend (2013: £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 G Johnson (resigned 31 May 2015)

Mr S Stacey

Mr C Pilgrim

Ms J Eaton

Mr J Stamp

Mr R Hattam (resigned 31 May 2015)

Mr J Scagell

Mr R Rose

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

Npower Limited

Directors' Report for the year ended 31 December 2014 (continued)

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 mediums.

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.

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 (formerly RWE Npower 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.

Over 30% (2013: 35%) of the eligible staff participate in the scheme, saving between £5 and £125 per scheme per month, up to a cumulative total of £375 (2013: £250) per month, with the option to purchase RWE AG shares at a 20% discount (2013: 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 135 of the RWE AG 2014 Annual Report.

Npower Limited

Directors' Report for the year ended 31 December 2014 (continued)

Financial risk management (continued)

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 and security deposits 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, commodity risk control 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 RWE 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 consist of the purchase of forward contracts for the purchase of energy on the wholesale market.

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.

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.

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Directors' Report for the year ended 31 December 2014 (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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 audit information of which the Company's auditors are unaware; and
- each director has taken steps that ought to have been taken as a director in order to become aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board on 30 July 2015 and signed on its behalf by:



Mr R Rose
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 2014 and of its profit 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

Npower Limited's financial statements comprise:

- Balance Sheet as at 31 December 2014;
- Profit and Loss Account 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 their preparation is applicable law and United Kingdom Accounting Standards (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.

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

Other matters on which we are required to report by exception (continued)

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.

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 8, 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.

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

What an audit of financial statements involves (continued)

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements 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: 30 July 2015

Npower Limited
Profit and Loss Account for the year ended 31 December 2014

	Note	2014 £ m	2013 £ m
Turnover	1	4,498.0	3,939.5
Cost of sales		<u>(4,163.5)</u>	<u>(3,579.2)</u>
Gross profit		334.5	360.3
Administrative expenses		(291.5)	(270.3)
Other operating income	3	<u>6.3</u>	<u>6.1</u>
Operating profit		49.3	96.1
Income from shares in group undertakings	5	-	89.3
Profit on disposal of investments in subsidiaries	6	<u>-</u>	<u>220.5</u>
Profit on ordinary activities before interest and taxation		49.3	405.9
Net interest payable and similar charges	7	<u>(28.5)</u>	<u>(46.3)</u>
Profit on ordinary activities before taxation	4	20.8	359.6
Tax on profit on ordinary activities	11	<u>(14.9)</u>	<u>(21.3)</u>
Profit for the financial year	20	<u><u>5.9</u></u>	<u><u>338.3</u></u>

All results relate to continuing operations.

The Company has no recognised gains and losses other than the profit shown above and therefore no separate statement of total recognised gains and losses has been presented.

There are no material differences between the profit on ordinary activities before taxation and the profit for the financial years stated above and their historical cost equivalents.

The notes on pages 14 to 33 form an integral part of these financial statements.

Npower Limited
Balance Sheet as at 31 December 2014

	Note	31 December 2014 £ m	31 December 2013 £ m
Fixed assets			
Intangible assets	12	127.7	156.1
Tangible assets	13	265.6	153.3
Investments	14	27.8	27.8
		<u>421.1</u>	<u>337.2</u>
Current assets			
Debtors: Amounts falling due within one year	15	2,083.4	2,009.5
Debtors: Amounts falling due after more than one year	15	37.8	42.3
Cash at bank and in hand		28.3	30.8
		<u>2,149.5</u>	<u>2,082.6</u>
Creditors: Amounts falling due within one year	16	<u>(2,379.3)</u>	<u>(2,219.3)</u>
Net current liabilities		<u>(229.8)</u>	<u>(136.7)</u>
Total assets less current liabilities		191.3	200.5
Provisions for liabilities	17	<u>(19.7)</u>	<u>(34.8)</u>
Net assets		<u>171.6</u>	<u>165.7</u>
Capital and reserves			
Called up share capital	19	1.0	1.0
Merger reserve	20	30.4	30.4
Profit and loss account	20	<u>140.2</u>	<u>134.3</u>
Total shareholders' funds	21	<u>171.6</u>	<u>165.7</u>

The financial statements on page 12 to 33 were approved by the Board of directors on 30 July 2015 and were signed on its behalf by:



Mr R Rose
Director

Npower Limited registered company number: 3653277

The notes on pages 14 to 33 form an integral part of these financial statements.

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014

1 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. A summary of the principal accounting policies is set out below. These policies have been applied consistently.

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

Basis of preparation of financial statements

The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated financial statements. The results of the Company and its subsidiaries are included in the consolidated financial statements of RWE AG, which can be obtained from the address as detailed in note 25.

Turnover

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

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

Pension costs

The majority of the Company's pension contributions are made to the Electricity Supply Pension Scheme's (ESPS) defined benefit scheme, which are recognised as if they were to a defined contribution scheme, within administrative expenses in the profit and loss account in the period to which they relate. This is because the Company is unable to identify its share of the underlying assets and liabilities of the ESPS scheme on a reasonable and consistent basis and hence it is accounted for as a multi-employer scheme under FRS 17 (Retirement Benefits). The assets of these schemes are held separately from those of the Company in independently administered funds. During 2009, the Company took the decision to close its defined benefit schemes to new entrants. New entrants are now only able to participate in a defined contribution scheme.

Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. The amounts recognised in the profit and loss account for the financial year are amounts after recharges to other Retail Group entities.

Interest

Interest receivable and payable is credited or charged to the profit and loss account on an accruals basis.

Other operating income

Credit balances relating to ex 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 percentage varies per business area, is consistent across the Retail Group and is reviewed annually.

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Notes to the Financial Statements for the year ended 31 December 2014 (continued)

1 Accounting policies (continued)

Goodwill

In accordance with FRS 10 (Goodwill and Intangible Assets), goodwill arising on acquisitions of unincorporated businesses, being the difference between the fair value of the purchase consideration and the fair value of the identifiable net assets/liabilities of an acquired business, is capitalised and amortised in equal annual instalments over its useful economic life, normally not exceeding 20 years.

Impairment reviews are undertaken in accordance with the requirements of FRS 11 (Impairment of Fixed Assets and Goodwill).

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical purchase cost less accumulated depreciation and any provision for impairment in value. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. In the case of assets constructed by the Company, cost includes related works and administrative overheads and commissioning costs in accordance with FRS 15 (Tangible Fixed Assets). Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date and are not depreciated until brought into use. Interest costs are not capitalised.

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

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

Asset class	Depreciation method and rate
Freehold land	Not Depreciated
Freehold buildings	40 years
Computer software	5 years
Office equipment and furniture	5 years
Fixtures and fittings	5 years

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

1 Accounting policies (continued)

Impairment reviews

In accordance with FRS 10 (Impairment of Fixed Assets and Goodwill) the Company's management reviews the carrying amounts of its fixed assets, which includes goodwill, 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.

Fixed asset investments

Fixed asset investments are stated at cost less provision for any impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

Taxation

Current taxation is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

The charge for taxation is based on the profit for the financial year and takes into account deferred tax. In accordance with FRS 19 (Deferred Taxation), deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

Deferred tax assets are recognised to the extent that they are considered recoverable and that there will be available taxable profits from which the future reversal can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax is measured on a non-discounted basis.

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

1 Accounting policies (continued)

Accounting estimations

In accounting for energy turnovers 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 we have undertaken, including the associated implications from late invoicing and associated backlogs, the reliance on the estimation of unbilled revenue has increased for the domestic segment in the review period. Management are proactively working to reduce the amount of estimation and will continue to review and refine the estimation techniques employed during 2015.

Provisions

Provisions are recognised when:

- the Company has a present legal or constructive obligation as a result of a past event;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Where material, discounting will be applied to the cash flows of the provision, with the discounted amount being shown within net interest payable and similar charges.

Share-based payments

The Company operates an equity share-based plan. Eligible employees of the Company are awarded options over the shares in the ultimate parent undertaking, RWE AG. At the inception of a scheme, a hedge is put in place with a financial institution in order to purchase the required number of shares at the scheme option price on the date that employees are first able to exercise. The hedge is recognised as an asset, at cost, until exercised. The fair value of the obligation arising from the employee services received in exchange for these grants of options is recognised as a liability and expensed in the profit and loss account. The total amount to be expensed over the scheme duration is determined by reference to the cost of the hedge. Further details of the scheme is contained within note 22.

Dividends

Interim dividends are recognised in the period in which they are paid or when the Company has a constructive or legal commitment to pay the dividend.

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 2014 (continued)

2 Cash flow statement and related party disclosures

The Company is a wholly owned subsidiary of RWE AG and is included in the consolidated financial statements of RWE AG, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (Cash Flow Statements). The Company is also exempt under the terms of FRS 8 (Related Party Disclosures) from disclosing related party transactions with entities that are part of the RWE AG group or investees of the RWE AG group.

3 Other operating income

	Year ended 31 December 2014 £ m	Year ended 31 December 2013 £ m
Final customer credits	<u>6.3</u>	<u>6.1</u>

During the prior year the Company carried out an investigation of outstanding customer credit balances. The investigation highlighted invalid amounts held on the legacy billing systems as well as historical customer credit balances that were at least 6 years old. Consequently these balances have been written back to the profit and loss account.

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 1. A percentage is retained as a provision to meet any obligation that may arise from ex customers re-establishing contact with the Company (see note 17).

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	Year ended 31 December 2014 £ m	Year ended 31 December 2013 £ m
Operating leases - plant and machinery (after recharges)	0.3	0.4
Operating leases - other assets (after recharges)	1.9	3.7
Depreciation of owned assets	9.1	9.6
Amortisation	28.4	28.4
Services provided by the company's auditors:		
Fees payable for the audit	0.3	0.3
Fees payable for other services - other non audit services	<u>0.4</u>	<u>0.4</u>

During the year, the Group reviewed and updated its methodology for recharging common costs within the Retail Group. The revised model has resulted in a more representative view of administrative expenses for each legal entity within the Retail Group.

Npower Limited**Notes to the Financial Statements for the year ended 31 December 2014 (continued)****5 Income from shares in group undertakings**

	Year ended 31 December 2014 £ m	Year ended 31 December 2013 £ m
Income from shares in group undertakings	-	89.3

In 2013 the Company received total dividends of £18,386,000 from Gas Plus Supply Limited and £70,928,000 from Electricity Plus Supply Limited.

6 Profit on disposal of investments in subsidiaries

	Year ended 31 December 2014 £ m	Year ended 31 December 2013 £ m
Profit on disposal of investments in subsidiaries	-	220.5

In 2013, Npower Limited sold its 100% interest in Gas Plus Supply Limited and Electricity Plus Supply Limited to Telecom Plus plc. Telecom Plus plc paid Npower Limited an initial £199 million for the companies with a further £21.5 million to be paid after three years.

7 Net interest payable and similar charges

	Year ended 31 December 2014 £ m	Year ended 31 December 2013 £ m
Interest payable and similar charges		
Other borrowings with group undertakings	(25.0)	(57.8)
Bank interest payable	(3.1)	(0.4)
Other interest payable	(3.3)	(0.1)
Total interest payable and similar charges	(31.4)	(58.3)
Interest receivable and similar income		
Interest receivable from group undertakings	2.7	11.4
Interest receivable on bank balances	-	0.5
Other interest receivable	0.2	0.1
Total interest receivable and similar income	2.9	12.0
Net interest payable and similar charges	(28.5)	(46.3)

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

8 Directors' remuneration

During the year aggregate emoluments of £2.0 million were paid to the directors (2013: £2.0 million) of which £1.6 million (2013: £2.0 million) was recharged from other group companies. The highest paid director received total emoluments of £315,218 (2013: £340,973) excluding amounts receivable under long term incentive schemes.

Five of the directors (2013: five) had accrued pension entitlements under defined benefit schemes at 31 December 2014. The accrued pension entitlement at 31 December 2014 of these directors was £139,700 (2013: £124,700). The accrued pension entitlement at 31 December 2014 of the highest paid Director was £nil (2013: £nil).

Three directors were members of a defined contribution scheme as at 31 December 2014 (2013: three), the total cost of contributions was £103,500 (2013: £82,700). The total cost of contributions for the highest paid director was £28,400 (2013: £30,700).

The directors, including the highest paid director, were not entitled to receive aggregate cash payments during the year (2013: not entitled) under long-term incentive schemes from the Company. None (2013: none) of the directors received or became entitled to receive shares in RWE AG under long-term incentive schemes in the financial year. No (2013: no) directors, including the highest paid director, exercised share options for shares in RWE AG in the financial year.

9 Particulars of employees

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, after deduction of recharges to other Retail entities, were as follows:

	Year ended 31 December 2014 £ m	Year ended 31 December 2013 £ m
Wages and salaries	59.2	48.6
Social security costs	6.3	4.8
Other pension costs	16.7	26.8
Share-based payments (employment costs)	0.5	0.5
	<u>82.7</u>	<u>80.7</u>

During the year, the Group reviewed and updated its methodology for recharging common costs within the Retail Group. The revised model has resulted in a more representative view of administrative expenses for each legal entity within the Retail Group.

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:

	2014 Number	2013 Number
Sales and administrative staff	2,330	1,874

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

10 Pension scheme funding

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

Npower Limited participates, along with other employers in the RWE Npower Group of the Electricity Supply Pension Scheme, a defined benefit pension scheme.

Npower Limited is unable to identify its share of the underlying assets and liabilities 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 RWE 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 will also not be possible to prepare the next one on an individual entity basis either. Therefore the scheme is accounted for as a multi-employer scheme under FRS 17 (Retirement Benefits) using the defined contribution exemption.

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 FRS 17 position as at 31 December 2014 for the scheme as a whole by updating the last formal valuations using methods appropriate for FRS 17. As at 31 December 2014 there was a deficit of £604 million (2013: £703 million).

During the year ended 31 December 2014, the subsidiaries of the Retail Group contributed to the four defined benefit sections of the ESPS at a weighted average rate of 17% of members' pensionable earnings. This is inclusive of a 0.9% contribution towards the administrative expenses of the scheme until 30 June 2014. After 1 July 2014, administrative expenses for the scheme became payable as a lump sum rather than a percentage of pensionable salaries. The first such lump sum was paid in March 2015. The Npower Limited cost of contributions during the financial year was £15.6 million (2013: £26.0 million) which includes additional contributions required to reduce the whole scheme deficit.

During the year to 31 December 2014, the Retail Group has paid total contributions of £3,967,139 (2013: £3,269,609) into the various defined contribution schemes.

There were no prepaid or accrued contributions at 31 December 2014 or 31 December 2013.

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

11 Tax on profit on ordinary activities

	Year ended 31 December 2014 £ m	Year ended 31 December 2013 £ m
Current tax		
Group relief (receivable)/payable	(3.1)	16.4
Adjustments in respect of previous years	13.5	0.1
Total current tax	10.4	16.5
Deferred tax		
Origination and reversal of timing differences	14.3	1.9
Adjustments in respect of prior years	(9.8)	(0.1)
Impact of change in UK tax rate	-	3.0
Total deferred tax	4.5	4.8
Tax on profit on ordinary activities	14.9	21.3

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK (2013 - lower than the standard rate of corporation tax in the UK) of 21.5% (2013 - 23.25%). The differences are explained below:

	2014 £ m	2013 £ m
Profit on ordinary activities before tax	20.8	359.6
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)	4.5	83.6
Expenses not deductible for tax purposes	7.8	6.8
Dividends from UK companies	-	(20.8)
Unrelieved losses on disposal of operations	-	(51.3)
Capital allowances in excess of depreciaton	(11.0)	(8.2)
Other timing differences	(3.3)	6.3
Impact of changes in UK tax rate	(1.1)	-
Adjustments in respect of prior periods	13.5	0.1
Tax charge for the year	10.4	16.5

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

11 Tax on profit on ordinary activities (continued)

Factors that may affect future tax charges

During the year, the main rate of UK corporation tax was reduced from 23% to 21%. This was substantively enacted on 2 July 2013 and was effective from 1 April 2014.

Further changes to the main rate of corporation tax were also substantively enacted on 2 July 2013 to reduce the rate to 20% effective from 1 April 2015. As this rate was substantively enacted in the prior period, the relevant deferred tax balances have not been re-measured in the current year.

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. The overall effect of these changes, if they had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by an additional £1.1m and increase the tax expense for the period by £1.1m.

12 Intangible fixed assets

	Goodwill £ m
Cost	
At 1 January 2014	568.4
At 31 December 2014	568.4
Accumulated amortisation	
At 1 January 2014	412.3
Charge for the year	28.4
At 31 December 2014	440.7
Net book value	
At 31 December 2014	127.7
At 31 December 2013	156.1

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises.

The directors estimate that the useful economic life of this goodwill is at least 20 years and it is amortised over 20 years in accordance with FRS 10 (Goodwill and Intangible Assets).

For the purposes of the goodwill impairment review, the directors consider it appropriate to assess the npower Retail Group as one income generating unit as outlined in the strategic report. As such, the impairment review has been performed across the Retail Group companies as a whole, and the directors do not believe that an impairment of Npower Limited's goodwill is necessary.

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

13 Tangible fixed assets

	Freehold land and buildings £ m	Office equipment and furniture £ m	Assets in the course of construction £ m	Fixtures and fittings £ m	Computer software £ m	Total £ m
Cost						
At 1 January 2014	0.4	1.1	129.7	17.1	110.3	258.6
Additions	-	-	125.3	-	-	125.3
Reclassification	-	(0.1)	-	(1.6)	1.7	-
Transfers	-	-	(12.2)	0.8	11.4	-
Disposals	-	-	(3.9)	(0.2)	(0.1)	(4.2)
At 31 December 2014	0.4	1.0	238.9	16.1	123.3	379.7
Accumulated depreciation						
At 1 January 2014	0.4	0.9	-	11.5	92.5	105.3
Charge for the year	-	-	-	1.0	8.1	9.1
Disposals	-	-	-	(0.2)	(0.1)	(0.3)
Transfers	-	-	-	(1.1)	1.1	-
At 31 December 2014	0.4	0.9	-	11.2	101.6	114.1
Net book value						
At 31 December 2014	-	0.1	238.9	4.9	21.7	265.6
At 31 December 2013	-	0.2	129.7	5.6	17.8	153.3

Included within tangible fixed assets is capital work in progress of £238.9 million (2013: £129.7 million), within which is a significant amount of system development cost.

Assets under construction additions includes £1.5 million of assets that have been transferred from other group companies.

Assets under construction disposals includes £3.9 million of assets that have been transferred to other group companies.

Details of the capital commitments of the Company can be found in note 24.

Npower Limited**Notes to the Financial Statements for the year ended 31 December 2014 (continued)****14 Fixed asset investments****Shares in group undertakings and participating interests**

	Subsidiary undertakings £ m
Cost	
At 1 January 2014 and as at 31 December 2014	<u>27.8</u>
Net book value	
At 1 January 2014 and as at 31 December 2014	<u><u>27.8</u></u>

Details of undertakings

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	Principal activity
Npower Gas Limited	England and Wales	Ordinary Shares	100%	Energy supplier
Npower Commercial Gas Limited	England and Wales	Ordinary Shares	100%	Energy supplier
Npower Financial Services Limited	England and Wales	Ordinary Shares	100%	Financial services
Plus Shipping Supply Limited	England and Wales	Ordinary Shares	100%	Gas shipping

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.

The Company also holds 426,989 shares in Telecom Plus plc (2013: 426,989 shares). The investment is recorded at cost and the market value of the investment as at 31 December 2014 was £5,388,601 (2013: £7,557,705), based on a closing mid market price of £12.62 per ordinary share (2013: £17.70 per ordinary share).

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

15 Debtors

	31 December 2014 £ m	31 December 2013 £ m
Debtors: amounts falling due within one year		
Trade debtors	168.5	246.0
Loans owed by group undertakings	98.3	78.6
Amounts owed by group undertakings	1,378.9	1,143.8
Taxation and social security	-	36.0
Other debtors	-	17.0
Prepayments and accrued income	437.7	488.1
	<u>2,083.4</u>	<u>2,009.5</u>
	31 December 2014 £ m	31 December 2013 £ m
Debtors: amounts falling due after more than one year		
Other debtors	1.6	1.6
Deferred consideration	21.5	21.5
Deferred taxation (Note 18)	14.7	19.2
	<u>37.8</u>	<u>42.3</u>
Total debtors	<u><u>2,121.2</u></u>	<u><u>2,051.8</u></u>

Other debtors falling due after more than one year relate to a hedge in respect of sharesave schemes.

Loans owed by group undertakings are unsecured and are repayable within a year. Loans bear interest at 4.0% (2013: 3.4%).

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

Prepayments and accrued income includes accruals for energy income not yet billed of £425.1 million (2013: £473.5 million).

Npower Limited**Notes to the Financial Statements for the year ended 31 December 2014 (continued)****16 Creditors: Amounts falling due within one year**

	31 December 2014 £ m	31 December 2013 £ m
Trade creditors	28.3	41.2
Loans owed to group undertakings	1,169.1	741.0
Amounts owed to group undertakings	457.2	817.8
Taxation and social security	71.3	13.3
Customer payments in advance	136.3	158.5
Accruals and other creditors	517.1	447.5
	<u>2,379.3</u>	<u>2,219.3</u>

All of the above creditors are unsecured.

Loans owed to group undertakings are unsecured and are repayable within a year. Loans bear interest between 0.0% and 4.0% (2013: 0.8% and 3.4%).

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment. Amounts owed to group undertakings also include £9.2 million of group relief payable (2013: £18.4 million).

Npower Limited**Notes to the Financial Statements for the year ended 31 December 2014 (continued)****17 Provisions for liabilities**

	Liabilities and claims	Restructuring	Other provisions	Final customer credits	Total
	£ m	£ m	£ m	£ m	£ m
At 1 January 2014	-	29.2	1.7	3.9	34.8
Utilised during the year	-	(27.2)	(1.5)	-	(28.7)
Charged/(credited) to the profit and loss account	6.9	6.5	1.4	(4.4)	10.4
Transfer from creditors during the year	-	-	0.2	3.0	3.2
At 31 December 2014	<u>6.9</u>	<u>8.5</u>	<u>1.8</u>	<u>2.5</u>	<u>19.7</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 2014 (continued)

18 Deferred taxation

The movement in deferred taxation is as follows:

	2014 £ m
As at 1 January	19.2
Charged to the profit and loss account (Note 11)	<u>(4.5)</u>
As at 31 December	<u><u>14.7</u></u>

Deferred taxation recognised on the balance sheet, and the potential amounts of deferred tax assets not recognised, at 20% (2013: 20%) are as follows:

	31 December 2014 £ m	31 December 2013 £ m
Timing differences in respect of capital allowances	8.6	10.9
Other timing differences	<u>6.1</u>	<u>8.3</u>
	<u><u>14.7</u></u>	<u><u>19.2</u></u>

There are no unprovided deferred tax assets.

19 Called up share capital

Allotted, called up and fully paid shares

	No.	2014 £	No.	2013 £
Ordinary shares of £1 each (2013: £1)	<u>1,000,001</u>	<u>1,000,001</u>	<u>1,000,001</u>	<u>1,000,001</u>

20 Reserves

	Merger reserve £ m	Profit and loss account £ m	Total £ m
At 1 January 2014	30.4	134.3	164.7
Profit for the year	<u>-</u>	<u>5.9</u>	<u>5.9</u>
At 31 December 2014	<u><u>30.4</u></u>	<u><u>140.2</u></u>	<u><u>170.6</u></u>

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

21 Reconciliation of movements in total shareholders' funds/deficit

	2014	2013
	£ m	£ m
Profit for the financial year	5.9	338.3
Total shareholders' funds/(deficit) at 1 January	165.7	(172.6)
Total shareholders' funds at 31 December	171.6	165.7

22 Share based payments

In the year under review the share-based payment schemes for executives and employees of Npower Limited consisted of an equity-settled scheme - a SAYE sharesave scheme - where the employee receives options in the share capital of RWE AG. There is also a cash-settled scheme, the long-term incentive plan 'BEAT'.

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 (formerly RWE Npower plc) was included within the financial statements of RWE Generation UK plc (formerly RWE Npower plc) until 30 September 2014. RWE Generation UK plc (formerly RWE Npower 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 (formerly RWE Npower 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.

Pay-out conditions

An automatic pay-out occurs if, following a waiting period of four years (for 2010, 2011, 2012, 2013 and 2014 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.

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 2010, 2011, 2012, 2013 and 2014 tranches).

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

22 Share based payments (continued)

Change 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 Settlement

The fair value of the performance shares conditionally granted in the BEAT programme amounted to €7.44 per share as of the grant date for the 2014 tranche, €8.09 per share for the 2013 tranche, €6.66 per share for the 2012 tranche, €17.01 per share for the 2011 tranche and €25.96 per share for the 4 year 2010 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 2014 is £1m (2013: £nil).

Sharesave scheme

	2013 tranche
Grant date	12/07/2013
Max number 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
	2013 tranche
Balance at the start of the fiscal year	319,322
Granted during the period	-
Forfeited during the period	-
Exercised during the period	(7,449)
Expired during the period	(77,067)
Balance at the end of the fiscal year	234,806
Exercisable at the end of the fiscal year	7,593

Npower Limited

Notes to the Financial Statements for the year ended 31 December 2014 (continued)

22 Share based payments (continued)

The average weighted share price as of the exercise date amounted to €28.88 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 €22.76. The weighted average remaining contractual term amounted to 1.67 years.

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

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

In the year under review, the total expense for share-based payment schemes for the Retail Group amounted to £2million (2013: £2 million) of which £1million (2013: £2 million) 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 2014 BEAT expense has been recharged from other group companies. In respect of these recharges, £1 million (2013: £2 million) was cash-settled by Npower Limited.

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

23 Contingent liabilities

In the normal course of business the Company enters into performance bonds with certain customers on behalf of its subsidiaries. As at 31 December 2014, the total value of these bonds and guarantees amounted to £32.0 million (2013: £nil).

All of the above guarantees are in place as security against the Company 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 2014 (continued)

24 Capital commitments and operating lease commitments

Operating lease commitments

As at 31 December 2014 the company had annual commitments under non-cancellable operating leases as follows:

Operating leases which expire:

	31 December 2014 £ m	31 December 2013 £ m
Land and buildings		
Within one year	0.2	0.3
Within two to five years	3.2	2.9
Over five years	0.7	0.6
	<u>4.1</u>	<u>3.8</u>

There were no capital commitments contracted but not provided as at 31 December 2014 (2013: nil).

25 Control

The company is controlled by RWE 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.