Registration number: 03653277

Npower Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018

Npower Limited
Contents

Npower Limited
Strategic Report for the year ended 31 December 2018

The directors present their Strategic Report on Npower Limited ("the Company") for the year ended 31 December 2018.

Business review and future developments

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

- Home - 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:

	Business area			
Legal entity	**Home**	**npower Business**	**npower Business Solutions**	**Other**
Npower Limited	X		X	
Npower Northern Limited*	X	X	X	
Npower Yorkshire Limited	X			
Npower Gas Limited	X			
Npower Direct Limited		X		
Npower Commercial Gas Limited			X	
Plus Shipping Services Limited	X			
PS Energy UK Limited	X			
Npower Business and Social Housing Limited**				X
Innogy Solutions Ireland Limited***			X	

* During 2018 Npower Northern Limited ceased operating in the npower Business Solutions business area
* Ceased trading in 2016
** Ceased trading in 2018

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

The underlying operating loss for this group of companies was £65 million in 2018 (2017: loss of £147 million).

General
2018 was another challenging year for the npower Retail Group. Increased competition was a feature across the market segments alongside higher customer engagement, with customers switching to lower priced products and more efficiently managing their consumption.

The planned merger with SSE's household energy and energy services business was cancelled in December 2018 as market conditions for energy suppliers worsened since the original deal was announced in November 2017, with profit margins to gain new customers at record lows and the final Ofgem price cap being set at a level that only allows the most efficient energy companies to make a profit.

Following the announcement that the merger was no longer going ahead, the npower Retail Group is now included in the asset swap transaction between npower's ultimate parent, RWE AG, and E.ON, subject to regulatory approval. Under the terms of the deal the Retail businesses of innogy SE, which includes the npower Retail Group, will transfer to E.ON. The deal is expected to complete in summer 2019 and planning for the integration of the npower Retail Group into E.ON is underway.

In January 2019, the npower Retail Group announced a programme to reduce its operating costs in response to the extremely tough UK retail energy market conditions, in particular Ofgem's price cap and intense competition on fixed price tariffs. The proposed cost reductions are likely to affect around 900 roles over the course of the year out of npower Retail Group's current workforce of around 6,300, although as around this number of people leave the company each year, the actual number of redundancies will be considerably lower.

The UK is due to leave the European Union on 31st October 2019. The effects of 'Brexit' on the npower Retail Group have been considered but at the date of signing are not believed to have a significant impact mainly as the npower Retail Group operates predominantly within the UK.

The recovery plan, which started in 2015 has continued to progress well through its final year in 2018. Further improvements to operational processes and lower operational costs set out in the plan have been realised in 2018. The 'return to sustainability' programme succeeded the recovery plan and seeks to further address the business' operational efficiency and cost base for the longer term.

Further details of the performance in 2018, including progress against the recovery plan, and the outlook for 2019 are included in the segmental reviews below.

Home

Npower Home financial results continued to report a loss for 2018 albeit significantly lower than that reported in 2017. This is against a backdrop of increased regulatory intervention, unprecedented levels of market competition manifesting in record switching levels, 16 new entrants and fixed price margins at an all-time low.

2018 saw record switching in the residential market with 9.75m (c20%) customers switching supplier, overtaking a decade old record. Over 2,000 fixed price tariffs were launched in the market in 2018, another industry record and a third higher than 2017. Highly competitive pricing from Small and Medium Suppliers continued to dominate the switching market and at the end of 2018 they collectively occupied the number one position for market share.

We made a conscious commercial decision not to compete at uneconomic margins which contributed to a c15% drop in our customer base to 3.8m, c0.7m lower than at the end of 2017. As a result of not competing aggressively, our non-standard tariffs as a percentage of overall customers reduced from 53% to 46% in 2018.

We continued to focus on cost efficiency as we approached the end of our 3 year recovery plan which focused on operational process efficiency and customer service improvement. Cost savings to the end of 2018 amounted to £78m, in line with our forecast. The return to sustainability programme is targeted to deliver further significant savings in 2019 and beyond. Furthermore, in response to Ofgem's price cap, a further significant cost reduction programme was announced early in 2019.

Operationally, we continue to invest in improving customer service and pleasingly our relative complaints record of number 3 in the industry amongst the 'Big 6' energy suppliers was maintained during the year. For the third year in a row we met the adjusted Ofgem targets for Smart meter installs.

We continued investment in our digital platforms including our digital offerings on npower.com. Recent upgrades to improve the online account experience and new channels such as Apple Business Chat enable call reductions and make it easier for our customers to transact with us, 60% of our customers are now registered to manage their accounts online.

We continued to invest in our Powershop brand during 2018, launching a dual fuel offering in April; two affinity deals with prominent rugby clubs and developing a White label proposition for further growth in 2019. We ended the year with c60k customer accounts, a 3 fold increase on 2017.

The market outlook remains somewhat challenging for npower Home and the industry as a whole. The competitive, political and regulatory pressures show little sign of easing. Ofgem continue to push for collective switching trials to engage inert Standard Variable Tariff (SVT) customers. The new SVT price cap became effective from 1st January 2019 with the regulator stating only the most cost efficient suppliers will be profitable in the years ahead. We saw 11 small suppliers cease trading in 2018 and Ofgem are proposing more stringent rules for new entrants focused on financial resilience and customer service. In addition, 14 small suppliers failed to meet their Renewable Obligation (RO) payment deadline during the year. Ofgem also announced the lowering of both Warm Home Discount (WHD) and Energy Company Obligation (ECO) thresholds during 2020/2021 to level up the competitive playing field.

Looking ahead, npower Retail Group will join the E.ON integration project. Combining activities with E.ON in the UK will enable economies of scale and ensure that the newly created leaner entity is able to compete on a sustainable basis for the benefit of customers, staff and shareholders alike.

npower Business

Challenging external market conditions, led to another difficult year for npower Business. The segment again reported a financial loss in 2018 and, whilst disappointing, it was significantly lower than that incurred in 2017.

Competition remained intense during 2018 with our competitors continuing to pursue aggressive acquisition policies aided by brokers being highly active in encouraging customers to switch. However, we equally did see strong broker sales despite challenging price competition. Renewal margins were further stretched as increasingly engaged customers renew more actively. Whilst renewal rates are high, customers are negotiating new contracts rather than rolling onto flexible payment products, reducing overall renewal margins.

Pleasingly, our year on year the Business account base remained stable driven by strong gross sales and lower external losses compared to 2017. Migration of the npower Business customers onto the Home SAP platform continues to progress well, and by year end c60% of the customer account base had been migrated to SAP with phased plans to complete migrations during 2019.

Operationally, our inbound calls to Customer Service remained high, in part due to migration teething issues since resolved, but our flexible resourcing approach utilising our South African outsource partner, helped to ensure customer issues were addressed promptly. Furthermore, a stabilisation plan in Customer Service Operations was also set up to address late invoicing and complaints inflow issues with increased focus on improving 'same day closure' performance. This, combined with the deployment of 'resolution at first contact' methodologies had shown real signs of improvement by year end.

Overall operating costs were 30% lower than 2017 due to an equal combination of lower project investment cost in 2018 versus 2017 but also lower core operating expenses. The full integration of npower Business within npower Home is planned to reduce operating costs further and we expect the new platform will continue to improve operational efficiency, customer processes, debt management and overall customer experience.

Looking ahead, the focus remains on returning the segment back to profitability, fully supporting the E.ON transaction and delivering the best version of npower Business.

npower Business Solutions

2018 represented a year of transition for npower Business Solutions (nBS), with a full year of development effort on an IT project called "Project Pavement" to implement a new, modern and efficient system for quoting, customer management and billing. This project drove £9m of additional cost over and above the prior year result.

The market landscape remained competitive, with low margins available for large commodity deals, and heavy penetration of Third Party Intermediaries in the mid-market marketplace. Power margins were significantly lower than in previous years, albeit some of this was driven by costs of around £6m for mutualisation of Renewable Obligation and Feed in Tariff costs relating to failed smaller suppliers.

Power supply volumes declined 4% in the year, with some customers not renewing in Q1 playing a part in this decline. nBS remained the second largest supplier in the market by volume, supplying 25.8 Terawatt hours (TWh) of electricity in 2018. The segment continued to occupy the top position for market share of half-hourly (HH) settled meters, with 64,000 meters, 19% of all UK HH meters.

In gas, Business Solutions supplied 3.6TWh in 2018, slightly up on the previous year comparator of 3.4TWh. This was partly driven by an increase in total UK business gas consumption related to the cold weather in March 2018. The segment remains 11th in the market by volume with a 1.5% share of UK Industrial and Commercial volume. There are now 75 suppliers for UK business gas, increased from 62 reported in 2017.

nBS saw a similar number of customer insolvencies as the previous year with an increase in value of debt at the point of insolvency in Q1 2018, which contributed to the segment recording its highest bad debt expense for a number of years.

The strategic outlook for nBS includes maintaining our strong market position in Industrial and Commercial power, as well as growth for our Gas and Energy Solutions (Demand Side Response, Data and Energy Management Partnerships) lines of business. Project Pavement is projected to significantly reduce operating expenses from 2020 onwards. The business faces a significant challenge to migrate all customers to the new platform in 2019.

Position of the Company

The Company's loss for the financial year ended 31 December 2018 was £70 million (2017: loss of £31 million). The net assets of the Company at 31 December 2018 were £181 million (2017: £246 million).

Npower Limited
Strategic Report for the year ended 31 December 2018 (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 npower Retail Group as a whole.

The npower 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 risk affecting the npower Retail Group is the competitive retail market which could impact the Company's ability to achieve its targets for customer numbers and/or gross margin per customer. The main external uncertainties faced are: the impact of energy efficiency initiatives and the strength of the economy on customer consumption; volatility in wholesale energy prices; and the level of network and environmental charges. 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 innogy SE Group as a whole are provided on pages 97 through 105 of the innogy SE 2018 Annual Report, which is available in the investor relations section of the innogy.com website.

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 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 npower 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 27 June 2019 and signed on its behalf by:

....
Mr P Sharman
Director

The directors present their report on the Company and the audited financial statements for the year ended 31 December 2018.

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 (2017: £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 C Pilgrim

Mrs J Eaton (Resigned 31 December 2018)

Mr J Scagell

Mr S Stacey

Mr P Sharman

Mr D Titterton

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 from 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 Limited. Npower Group Limited has indicated that it intends to provide such funds as are necessary for the Company to trade for the period of a year after the date of signing the financial statements. Npower Group Limited had net current liabilities of £348m as at 31 December 2018, however Npower Group Limited has received a letter of support from innogy SE indicating that it intends to provide such funds as are necessary for Npower Group Limited to trade for the period of a year after the date of signing financial statements.

The proposed transaction between RWE and E.ON, as described below, will see innogy SE, and therefore the Company, as its indirect wholly owned subsidiary, transfer to E.ON in 2019 as part of an asset swap deal. E.ON will become the majority shareholder in innogy SE as part of the asset swap deal, however it is not currently known how the legal entity of innogy SE will be integrated into E.ON. If innogy SE is merged with an E.ON group company then it becomes the legal successor of innogy SE and under German law the contracts and liabilities of the acquired group are transferred to the acquiring party, therefore the letter of support from innogy SE will be transferred to E.ON. If innogy SE is not merged with an E.ON group company then the letter of support would continue to be valid with innogy SE. The directors are of the opinion that both E.ON and innogy SE would be able to access external sources of finance and with sufficient liquidity to meet its operating needs. Management however recognise that there is uncertainty regarding the future of the Company within E.ON until an announcement is made by E.ON as to its intentions towards the npower Retail Group going forward.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Nevertheless, having considered the uncertainties described above and after making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the directors continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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.

Long term viability statement
The Company is a 100% owned subsidiary of the innogy SE group. The innogy SE group is majority owned by the RWE group following a successful IPO in 2016. innogy SE group had a market capitalisation of €22.4billion at 2018 year end (2017: €18.2 billion) and employs around 43,000 employees. innogy SE group supplies over 15 million customers with electricity and over 6 million with gas in eleven European countries, its key markets being in Germany, the Netherlands and the United Kingdom. In the year 2018, the innogy SE group recorded €37.0 billion (2017: €43.1 billion) in revenue, and had a loss after tax of approximately €0.3 billion (2017: profit €1.1 billion). Being a large group, innogy SE 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.

In March 2018, RWE, which owns 76.8% of innogy SE, and fellow German utility, E.ON, agreed to a complex asset swap transaction. The main elements of this transaction are that E.ON will acquire innogy SE's Grid & Infrastructure and Retail businesses and in return, RWE will take on both E.ON and innogy SE's renewables businesses. RWE will also receive a 16.67% stake in E.ON. The deal is contingent on receiving approval from the relevant authorities.

Whilst the Company remains part of the innogy SE group of companies it is funded by its parent on an ongoing basis through a cash management agreement providing access to multi-million pound funding on a daily basis as required to meet its daily working capital requirements. Following the transfer to E.ON the same or similar arrangements are expected to be in place.

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

The npower Retail 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.

It is the npower Retail Group's policy to consult with employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions that are likely to affect their interests. The npower Retail Group also endeavours to achieve a common awareness of all employees in relation to the financial and economic factors that affect the performance of the Company.

Equal opportunities and diversity
The npower Retail 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 npower Retail 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 are 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 npower Retail Group. If members of staff become disabled the npower Retail Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Employee share plans
The npower Retail Group was previously part of a savings related share option plan for the benefit of employees in the UK. The Company was responsible for the operation of the 2013 tranche. The 2013 scheme matured on 1 September 2016 and the last date of exercise was 28 February 2017.

Financial risk management

Capital management
The Company's objectives, policies and processes for managing capital are consistent with those of the innogy SE Group. Detailed discussions of these, in the context of the innogy SE Group as a whole, are provided on pages 97 through 105 of the innogy SE 2018 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.

Financial risk management (continued)

Liquidity risk
The Company forms part of the Npower Group Limited treasury arrangements, which actively manages 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 innogy SE. 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.

Interest rate cash flow risk
The Company has interest-bearing assets and liabilities. 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 innogy SE, the Company complies with 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.

Statement of directors' responsibilities in respect of the financial statements
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, comprising FRS 101 "Reduced Disclosure Framework", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Statement of disclosure of information to the auditors
In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the 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 27 June 2019 and signed on its behalf by:

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Mr P Sharman
Director

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

Report on the audit of the financial statements

Opinion

In our opinion, Npower Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2018; the Profit and Loss Account; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The company is reliant on a letter of support with its parent, Npower Group Limited, who in turn are reliant on the support of its parent, Innogy SE for funding in order to continue operating for at least 12 months from the date of this report. Due to the proposed transaction between RWE and E.On which will see Innogy SE and therefore Npower transfer to E.On in 2019, management believe the letter of support will transfer to E.On under German law. Whilst the directors are of the opinion that E.On will be able to access external sources of finance to support Npower, the availability, extent and timing of such funding is uncertain. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 11, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
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.

Other required reporting

Companies Act 2006 exception reporting
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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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Steven Kentish (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

Date: 27 June 2019

Npower Limited
Profit and Loss Account for the year ended 31 December 2018

	Note	2018 £ m	2017 £ m
Turnover	4	3,568	3,441
Cost of sales		(3,329)	(3,174)
Gross profit		239	267
Administrative expenses		(218)	(274)
Other operating expense	5	(136)	(3)
Unrealised gains of financial derivatives	6	75	11
Operating (loss)/profit	7	(40)	1
Interest receivable and similar income	9	7	-
Interest payable and similar expenses	10	(20)	(31)
Loss before taxation		(53)	(30)
Tax on (loss)/profit	14	(17)	(1)
Loss for the financial year		(70)	(31)

The above results were derived from continuing operations.

The notes on pages 19 to 62 form an integral part of these financial statements.

Npower Limited
Statement of Comprehensive Income for the year ended 31 December 2018

	2018 £ m	2017 £ m
Loss for the financial year	(70)	(31)
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of post employment benefit obligations	4	-
Surplus on revaluation of FVOCI financial assets	1	-
	5	-
Total comprehensive expense for the year	(65)	(31)

The notes on pages 19 to 62 form an integral part of these financial statements.

Npower Limited
Balance Sheet as at 31 December 2018

	Note	2018 £ m	2017 £ m
Fixed assets			
Intangible assets	15	297	395
Tangible assets	16	23	19
Investments	17	-	28
		320	442
Current assets			
Stocks	18	3	2
Debtors: Amounts falling due within one year	19	1,836	2,023
Debtors: Amounts falling due after more than one year	14	35	43
Fair value through OCI financial assets	20	6	5
Derivative financial assets	24	114	38
		1,994	2,111
Creditors: Amounts falling due within one year	21	(2,119)	(2,293)
Net current liabilities		(125)	(182)
Total assets less current liabilities		195	260
Provisions for liabilities	25	(14)	(14)
Net assets		181	246
Capital and reserves			
Called up share capital	27	101	101
Merger reserve		30	30
Fair value through OCI reserve		6	5
Profit and loss account		44	110
Total shareholders' funds		181	246

The financial statements on pages 15 to 62 were approved by the Board on 27 June 2019 and signed on its behalf by:

P. Sharman

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Mr P Sharman

Director

Npower Limited registered company number: 03653277

The notes on pages 19 to 62 form an integral part of these financial statements.

Npower Limited
Statement of Changes in Equity for the year ended 31 December 2018

	Called up share capital £ m	Merger reserve £ m	FVOCI reserve £ m	Profit and loss account £ m	Total Shareholders' funds £ m
At 1 January 2018	101	30	5	110	246
Loss for the financial year	-	-	-	(70)	(70)
Other comprehensive income for the year	-	-	1	4	5
Total comprehensive expense for the year	-	-	1	(66)	(65)
At 31 December 2018	101	30	6	44	181

	Called up share capital £ m	Merger reserve £ m	Available for sale reserve £ m	Profit and loss account £ m	Total Shareholders' funds £ m
At 1 January 2017	101	30	5	141	277
Loss for the financial year	-	-	-	(31)	(31)
Total comprehensive expense for the year	-	-	-	(31)	(31)
At 31 December 2017	101	30	5	110	246

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

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.

Available for sale reserve represents the accumulated change in fair value of available for sale financial assets, reclassified in 2018 as FVOCI as a result of the implementation of IFRS 9.

Profit and loss account represents the retained earnings of the Company.

Loss for the financial year includes amortisation of intangible assets (notes 7 and 15).

The notes on pages 19 to 62 form an integral part of these financial statements.

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 in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The financial statements were prepared under the historical cost convention, as modified by revaluation of financial assets and financial liabilities held at fair value through profit and loss (as applicable).

Summary of disclosure exemptions

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 33(c) of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)

- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

- 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)

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)
- 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

- 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 innogy SE. The group financial statements of innogy SE are available to the public and can be obtained as set out in note 28.

2 Accounting policies (continued)

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 Limited. Npower Group Limited has indicated that it intends to provide such funds as are necessary for the Company to trade for the period of a year after the date of signing the financial statements. Npower Group Limited had net current liabilities of £348m as at 31 December 2018, however Npower Group Limited has received a letter of support from innogy SE indicating that it intends to provide such funds as are necessary for Npower Group Limited to trade for the period of a year after the date of signing financial statements.

The proposed transaction between RWE and E.ON, as described on page 8, will see innogy SE, and therefore the Company, as its indirect wholly owned subsidiary, transfer to E.ON in 2019 as part of an asset swap deal. E.ON will become the majority shareholder in innogy SE as part of the asset swap deal, however it is not currently known how the legal entity of innogy SE will be integrated into E.ON. If innogy SE is merged with an E.ON group company then it becomes the legal successor of innogy SE and under German law the contracts and liabilities of the acquired group are transferred to the acquiring party, therefore the letter of support from innogy SE will be transferred to E.ON. If innogy SE is not merged with an E.ON group company then the letter of support would continue to be valid with innogy SE. The directors are of the opinion that both E.ON and innogy SE would be able to access external sources of finance and with sufficient liquidity to meet its operating needs. Management however recognise that there is uncertainty regarding the future of the Company within E.ON until an announcement is made by E.ON as to its intentions towards the npower Retail Group going forward.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Nevertheless, having considered the uncertainties described above and after making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the directors continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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 innogy SE. A copy can be obtained from the address as detailed in note 28.

New standards, amendments and IFRS IC interpretations
No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2018 have had a material impact on the company.

The IASB has adopted further Standards and amendments to Standards, which were not yet mandatory in the European Union (EU) in the year ending 31 December 2018. The most important changes are presented below. EU endorsement is still pending in some cases.

2 Accounting policies (continued)

IFRS 9 Financial Instruments (2014) replaces the previous regulations of IAS 39 on financial instruments. The Standard contains amended regulations on measurement categories for financial assets and includes some smaller changes in relation to the measurement of financial liabilities. Fair value measurement without an effect on income is stipulated for certain debt instruments reported under assets. It also contains regulations on the impairment of assets and hedge accounting. The rules on impairment will now apply to expected losses. The new regulations on hedge accounting are intended to enable better reporting of the risk management activities in the financial statements. To this end, IFRS 9 expands the range of underlying transactions qualifying for hedge accounting and simplifies effectiveness testing, among other things. The new Standard became effective for fiscal years starting on or after 1 January 2018.

For the Company's investments in equity capital instruments with a total book value of £6.1m (2017: £5.1m), the option to capture the fair value changes in other comprehensive income has been exercised.

No material changes occurred with regard to the classification of financial assets which have previously been stated at amortised cost.

First time application of the new impairment model did not have a significant impact on the financial assets held by the Company at the time of transition.

No material changes occurred in relation to the recognition of financial liabilities.

Hedge accounting under IAS 39 was not applied in 2017. No additional hedge accounting is designated on the basis of IFRS 9.

The Company has not accounted for own use contracts at fair value.

In the transition to the classification and measurement methods pursuant to IFRS 9, the Company has not restated any previous-year figures and has thus not adjusted retained earnings as of 1 January 2018, in order to recognise the impacts from first-time application of the Standard.

2 Accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers (2014) including Amendments to IFRS 15, Effective Date of IFRS 15 (2015) and Clarifications to IFRS 15 Revenue from Contracts with Customers (2016) has replaced the contents of IAS 18 Revenue and IAS 11 Construction Contracts and the corresponding Interpretations.

The new Standard does not distinguish between different types of orders and performance. It establishes uniform criteria as to when revenue is realised for a performance obligation at a point in time (as is the case for the npower Retail Group) or over time. Accordingly, revenue is to be recognised when the customer obtains control of the agreed goods and services and can benefit from such. Application of the new Standard is required for annual periods beginning on or after 1 January 2018. The Company applied the modified retrospective method as a transitional method for first-time application as of 1 January 2018. npower Retail Group completed the IFRS 15 contract analysis and identified the below noted points required specific consideration. However there was no significant effect in relation to the following:

Energy supply contracts with households which receive free gifts or goods at a reduced price.
According to IFRS 15, free benefits may represent separate performance obligations, a portion of which should be allocated to the transaction price, and thus revenue is to be recognised upon transfer of control. For goods which are offered at a reduced price, allocation of the total transaction price can result in a change in revenue compared to the current accounting treatment according to IAS 18.

Customers may be offered free benefits in conjunction with signing up for an energy tariff - these benefits represent separate performance obligations as part of the revenue transaction and as such should have a portion of the transaction price allocated to their value. The free benefits are insignificant in value in comparison to the total revenue derived from a typical energy supply contract, and the treatment of these under IFRS 15 does not represent a significant change to the Company's treatment under IAS 18. The costs associated with these free benefits are treated as an administrative expense.

Contracts with households which include warranties for customers.
Warranties can either be an assurance that the product complies with agreed-upon specifications ('assurance-type warranty') or assurances that go above and beyond this ('service-type warranty'). According to IFRS 15, service-type warranties represent separate performance obligations, to which a portion of the transaction price is to be allocated. Warranties which only provide an assurance of the agreed-upon specifications are accounted for in accordance with the principles of IAS 37 for provisions.

The Company does offer a limited amount of 'assurance-type warranties' to customers who are on specific energy supply tariffs, however, currently there are no instances of the 'service-type warranties'. Therefore, this means under IFRS 15 there is no change required to the accounting for these arrangements.

Contract costs are costs which are additionally incurred in obtaining a contract.
If the npower Retail Group expects that it will recover these costs, they should be capitalised and amortised on a systematic basis consistent with the transfer of the goods or services to the customer. If the expected amortisation period is no longer than one year, in the interests of simplification the contract costs may be recognised as an expense when incurred. Implementation of this new IFRS 15 regulation is limited to changes in presentation and disclosure in the notes.

The only contract costs in relation to contracts with customers that have terms longer than one year, are for certain business customers. Contract costs such as these are capitalised, and subsequently amortised over the same period as the contract term runs - therefore there is no change to the pre-existing treatment of costs of this nature under IFRS 15.

2 Accounting policies (continued)

Payments to customers for sales purposes are always recognised as a reduction of revenue.
Payment upon signing of the contract results in the recognition of an asset, which is to be amortised over the life of the contract. If the payment for sales purposes is only payable in the future, a provision is formed which is released upon payment.

Payments are not typically made to customers for sales purposes and there was no impact in this area on transition to IFRS 15.

Contracts with households frequently give the customer the right to terminate the contract early.
If the customer can cancel the contract on a monthly basis, the contract term is considered to be one month only in line with IFRS 15.

Contract terms are assessed in line with the earliest end date of the contract. For energy supply contracts, revenue is only recognised on transfer to the customer, as such there is little impact from the adoption of IFRS 15 in this area.

IFRS 16 Leases (2016) replaced IAS 17 Leases and the related Interpretations IFRIC 4, SIC-15 and SIC-27. According to this new Standard on leases, aside from short-term leases (less than 12 months) and leases of low-value assets, all leases are to be reported on the balance sheet if their existence conveys a 'right-of-use' asset. Consequently, regardless of economic ownership of the leased asset, the lessee must recognise a right-of-use asset and a corresponding lease liability in the amount of the present value of the fixed lease payments.

For lessors, the new Standard does not result in any significant changes to the current accounting treatment pursuant to IAS 17 also in terms of classifying the lease, which is still necessary. The new Standard becomes effective for fiscal years starting on or after 1 January 2019, which is when the Company will adopt the new standard. On transition, the modified retrospective method will be applied.

Adoption of IFRS 16 from 1 January 2019 will result in certain other property and vehicle leases, previously accounted as 'operating leases' under IAS 17, coming onto the balance sheet with an increase in assets and liabilities. Low value items such as photocopiers or contracts where the lease term is less than 12 months, will not fall into the scope of IFRS16 and will therefore not result in a right-of-use asset.

For periods beginning on or after 1 January 2019 the IFRS16 criteria apply for the recognition of leases in Power Purchase Agreements (PPA's). However for existing PPA's assessed under the IFRIC4 criteria, the grandfathering option of IFRS16 will result in no lease reassessments. If the Company were to enter into new PPA's subsequent to 1 January 2019 under similar terms to the current arrangements, these would not constitute a lease if assessed using the IFRS 16 criteria. As such, the effect of IFRS 16 in relation to the PPA's currently in place does not result in a material change to the current treatment under IAS 17.

2 Accounting policies (continued)

The following Standards, amendments to Standards, and Interpretations are not expected to have any material effects on the Company's financial statements:

• IFRS 17 Insurance Contracts (2017).
• Amendments to IFRS 9: Prepayment Features with Negative Compensation (2017).
• Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (2017).
• Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (2016).
• Annual Improvements to IFRS Standards 2014– 2016 Cycle (2016), which contains amendments and clarifications to IFRS 1 and IAS 28.
• Amendments to IAS 40 Transfers of Investment Property (2016).
• Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (2016).
• Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and an Associate or Joint Venture (2014). First-time application of these amendments in the EU was delayed indefinitely.
• IFRIC 22 Foreign Currency Transactions and Advance Consideration (2016).
• IFRIC 23 Uncertainty over Income Tax Treatments (2017).
• Annual Improvements to IFRS Standards 2015– 2017 Cycle (2017); this collective Standard contains amendments and clarifications to IFRS 3, IFRS 11, IAS 12 and IAS 23.
• Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (2018).

Turnover
Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts and value added taxes. The Company recognises revenue when performance obligations have been satisfied and for the Company this is when the goods or services have transferred to the customer and the customer has control of these. The Company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Energy supply: turnover is recognised on the basis of energy supplied during the year. Turnover for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (known as unbilled revenue). Unread gas and electricity is estimated using historical consumption patterns, taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued energy income within trade and other receivables.

Other turnover comprises metering and energy generation services and is recognised at the date of service provision.

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

2 Accounting policies (continued)

Other operating income

Credit balances relating to ex npower Business Solutions customers who are no longer supplied by the Company and with whom we have lost contact (known as final credits) are held as trade liabilities for a period of at least 12 months. During this period 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 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 exceed 12 months old and therefore reach the age in which they would be released according the policy above, they are instead transferred to other liabilities to be utilised in future helping vulnerable customers through the npower Energy Fund and also customers affected by cancer through a Macmillan 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 annually.

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include, software development costs and other assets under construction. For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly attributable labour and directly attributable overheads. Capitalisation begins when expenditure for the asset is being incurred and activities necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Amortisation commences at the point of commercial deployment.

2 Accounting policies (continued)

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:

Asset class	Amortisation method and rate
Goodwill	Not amortised
Computer software	5 - 10 years
Intangible assets under construction	Not amortised

During 2018 the range of computer software UEL was increased up to 10 years due to the expectation that certain assets will continue to be in use for this time period.

This application has been implemented prospectively and the effect on amortisation of computer software charged in 2018 is £31m.

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:

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

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.

Fair value through other comprehensive income investments are stated at fair value with movements recognised within other comprehensive income. On disposal of the investment the cumulative change in fair value is transferred from the OCI reserve to retained earnings.

2 Accounting policies (continued)

Impairment of non-financial assets

The Company's management reviews the carrying amounts of its fixed assets, which includes goodwill, intangible assets, 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 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 in hand and call deposits which are readily convertible to cash and are subject to an insignificant risk of changes in value.

Trade debtors

Trade debtors are amounts due from customers for 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. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

Stocks

Stocks are stated at the lower of cost and net realisable value, after due regard for obsolete and slow moving stocks. Net realisable value is based on selling price less anticipated costs to completion and selling costs.

2 Accounting policies (continued)

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.

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.

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 Company 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.

2 Accounting policies (continued)

Defined benefit pension obligation
The corporate pension system in the UK is managed by Electricity Supply Pension Scheme (ESPS) in its own special-purpose section. The retail section, with its principal employer Innogy Renewables UK Ltd, contains the obligation for the retail business.

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 Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of 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 obligation.

The current service cost of the defined benefit plan, recognised in 'Administrative expenses' in the Profit and Loss Account, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from service in the current year, benefit changes, curtailments and settlements.

Past service costs are recognised immediately in the Profit and Loss Account.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in 'Interest receivable and similar income' and 'Interest payable and similar expenses' in the Profit and Loss Account.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Further details are provided in note 13.

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 Company operates a cash-settled compensation plan (SPP). Certain employees of the Company are awarded options over performance shares which are linked to the performance of the shares in the intermediate parent undertaking, innogy SE. 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.

Further details regarding both the SPP can be found in note 23.

2 Accounting policies (continued)

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.

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 IFRS 9 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. However a portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Company's expected sale, purchase or usage requirements ('own use'), and are not within the scope of IFRS 9.

3 Critical accounting judgements and key sources of estimation uncertainty

Turnover - estimation uncertainty

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.

Valuation of debtors – estimation uncertainty

Debtors represent the most significant exposure to credit risk and are stated after an allowance for impairment. The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. See note 19 for the net carrying amount of the receivables and associated impairment provision.

Valuation of goodwill – estimation uncertainty

In the final quarter of every fiscal year a review of the carrying amounts of goodwill is conducted to determine whether any impairment of the carrying value of those assets is required to be recorded. In this test, judgements and estimates are made in considering both the level of cash generating unit (CGU) at which assets such as goodwill are assessed as well as the estimates and assumptions behind the calculation of recoverable amount of the respective assets. At the balance sheet date, the carrying amount was higher than the recoverable amount of the cash generating unit which resulted in an impairment charge. These deficits or surpluses react especially sensitively to changes in the discount rate, the growth rate and the operating result after taxes in terminal value. Further detail is provided in note 5.

Recognition of deferred tax assets - judgement

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. Recognition therefore involves judgement regarding the future financial performance of the Company and the wider innogy Group.

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:

	2018 £ m	2017 £ m
Sales of goods and services	3,523	3,393
Other turnover	45	48
	3,568	3,441

The Company has recognised the following liabilities related to contracts with customers.

	2018 £ m	2017 £ m
Current contract liabilities relating to energy supply contracts	(1)	(3)

The Company has no contract assets and therefore recognised no loss allowance following the adoption of IFRS 9.

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2018 £ m
Revenue recognised that was included in the contract liability balance at the beginning of the period.	
Energy supply contracts	3

See note 2 for changes in accounting policies. There were no assets recognised from costs to fulfil a contract.

5 Other operating expense

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

	2018 £ m	2017 £ m
Other operating income	1	2
Impairment of goodwill	(109)	-
Impairment of investment	(28)	(5)
	(136)	(3)

Other operating income
Included in the 2017 balance are credit balances relating to customers who are no longer supplied by the Company. Despite carrying out rigorous procedures over 12 months the Company was unable to trace these customers and consequently these amounts have been written back to the Profit and Loss Account.

Impairment of goodwill
An impairment test is performed every year in order to identify any need to recognise impairment losses on goodwill.

The recoverable amount of the cash-generating unit is determined, which is defined as the higher of fair value less cost of disposal 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.

Fair value less costs to sell is assessed from an external perspective and value in use from a company-internal perspective. Values are determined using a business valuation model, based on planned future cash flows. These cash flows, in turn, are based on the mid-term business plan, as approved by the Executive Board and valid at the time of the impairment test. They pertain to a detailed planning period of three years. The cash flow plans are based on experience as well as on expected market trends. If available, market transactions in the same sector or third-party valuations are taken as a basis for determining fair value.

The npower Retail Group mid-term business plan is based on United Kingdom specific assumptions regarding the development of key economic indicators such as gross domestic product, consumer prices, interest rate levels and nominal wages. These estimates are derived from various inputs, including macroeconomic and financial studies, amongst others. The key planning assumptions for the electricity and gas markets relate to the development of wholesale prices and retail prices of electricity and natural gas, market shares and regulatory framework conditions.

The discount rate used for the npower Retail Group business valuation was determined on the basis of market data using a company valuation model. During the period under review this was 5.50 % after tax (2017: 5.50 %).

5 Other operating expense (continued)

For the extrapolation of future cash flows going beyond the detailed planning horizon, a uniform growth rate of 0.0 % was used, analogously to the previous year. The annual cash flow taken as a basis for the years beyond the detailed planning horizon includes the deduction of investment expenses in the amount necessary to maintain business operations. This approach is consistent across the innogy SE Group as a whole and is disclosed on pages 146 and 147 of the innogy SE 2018 Annual Report.

As part of the impairment test, an impairment of £109 million was recognised on the goodwill of the Company, due to a deterioration in commercial assumptions and more difficult regulatory conditions. This was based on a carrying amount of £666 million and a value in use of £557 million.

Goodwill impairment charged is especially sensitive to changes in assumptions. Variations in the assumptions resulted in the following increases/(decreases) to the impairment charged:

- discount rate percentage: 1% increase £99m/90%, 1% decrease £(109)m/(100)%;
- growth rate percentage: 1% increase £(98)m/(90)%, 1% decrease £68m/62%; and
- gross profit margin by value: 1% increase £(30)m/(28)%, 1% decrease £30m/28%.

Impairment of investment

As of the balance sheet date, the recoverable amounts of the other assets, which were calculated as fair value less costs of disposal, were compared to their carrying amounts. The Company recognised further charge of £28 million in respect of fair value provisions against an investment in Npower Gas Limited. These provision charges react especially sensitively to changes in the discount rate, the growth rate and cash flow in the terminal value.

6 Unrealised gains of financial derivatives

	2018 £ m	2017 £ m
Gain on unrealised valuation of commodity derivatives	75	11

7 Operating profit

Operating profit is arrived at after charging:

	2018 £ m	2017 £ m
Depreciation expense (included in 'Administrative expenses')	2	3
Amortisation expense (included in 'Administrative expenses')	36	60
Impairment loss	137	5
Operating lease expense - property	2	2
Operating lease expense - other	1	-
Loss on disposal of property, plant and equipment	2	1

7 Operating profit (continued)

Full disclosure of the operating lease commitments are shown in the financial statements of the npower Retail Group company that legally holds the lease. Where use of such leases are shared across the group the operating lease costs are then recharged across the npower Retail Group as applicable.

The lease commitments that the Company holds are disclosed in note 22.

Impairment losses are disclosed in note 5.

8 Auditors' remuneration

	2018 £ m	2017 £ m
Audit of the financial statements	0.1	0.3
Other fees to auditors		
All other non-audit services	-	0.1

Fees from auditors are borne by Npower Limited and recharged to other npower Retail Group companies. The methodology to recharge these costs was updated in 2018 which is reflected in the variance between periods.

9 Interest receivable and similar income

	2018 £ m	2017 £ m
Other finance income	1	-
Pension interest income - return on assets	6	-
	7	-

See note 13 for full pensions disclosure. Pensions interest income is disclosed in the Scheme Assets reconciliation as interest income on scheme assets.

10 Interest payable and similar expenses

	2018 £ m	2017 £ m
Interest on bank overdrafts and borrowings	1	-
Other finance costs	-	5
Interest payable to group undertakings	13	26
Pension interest expense - defined benefit obligation	6	-
	20	31

See note 13 for full pensions disclosure. Pensions interest expense is disclosed in the Scheme Liabilities reconciliation as interest costs on defined benefit obligation.

11 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 npower Retail Group entities via the group management charge. The aggregate payroll costs for Npower Limited (including directors' remuneration), after deduction of recharges to other npower Retail Group entities, were as follows:

	2018 £ m	2017 £ m
Wages and salaries	55	58
Social security costs	5	6
Other pension costs	4	32
	64	96

Other pension costs reflect the Company's share of pension scheme costs. Full disclosure is made in note 13.

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

	2018 No.	2017 No.
Sales and administrative staff	1,708	1,839

12 Directors' remuneration

Details of the directors' aggregate remuneration for the year ended 31 December 2018 are set out below together with details of the highest paid director. No compensation for loss of office was paid to the directors (2017: £0.3m).

Directors emoluments are disclosed in total and in respect of services to the npower Retail Group as a whole.

	2018 £m	2017 £m
Aggregate emoluments	2.9	1.8

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

	2018 No.	2017 No.
Received or were entitled to receive shares under long term incentive schemes	-	-
Exercised share options	-	-
Accruing benefits under defined benefit pension scheme	3	4
Accruing benefits under defined contribution pension scheme	3	3

The accrued pension entitlement of the directors under the defined benefit pension scheme at 31 December 2018 was £167,300 (2017: £161,300).

The total cost of contributions paid into the defined contribution pension scheme for the year ended 31 December 2018 was £5,300 (2017: £7,200).

The directors, including the highest paid director, were not entitled to receive aggregate cash payments during the year (2017: not entitled) under long-term incentive schemes from the Company. None (2017: none) of the directors received or became entitled to receive shares in RWE AG under long-term incentive schemes in the financial year. No (2017: 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:

	2018 £	2017 £
Remuneration	390,734	371,045
Benefits under long-term incentive schemes (excluding shares)	220,000	-
Defined benefit accrued pension entitlement at the end of the year	67,100	65,600
Defined benefit accrued lump sum at the end of the year	105,500	100,600

Benefits under long term incentive schemes relates to emoluments received in relation to a Recovery Plan incentive scheme assessed over the period from 2015. No other remuneration in relation to this incentive plan has been received in the past or is receivable in the future.

13 Pension scheme funding

Pension and other schemes
The Company participates in the innogy Group of 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. In addition to the defined benefit scheme, there was also a defined contribution scheme within the innogy Group of the Electricity Supply Pension Scheme; the Defined Contribution Section of the innogy Group of the ESPS.

The Company's principal pension defined benefit plan in the United Kingdom is provided through the sector-wide Electricity Supply Pension Scheme (ESPS), in which the Company participates in a dedicated section (the innogy Group - the "Retail Section").

Pension scheme restructuring
During 2017 the Company was part of the innogy Group of ESPS, with its principal employer innogy Renewables UK Limited, containing the obligation for the retail and renewables businesses. In preparation for the anticipated merger with SSE, the pension scheme went through a sectionalisation process. The innogy Group was split into two new independent sections as of 31 March 2018. The innogy section, contains the obligation for the renewables business; and the retail section, contains the obligations for the retail business. The principal employer for both sections is innogy Renewables UK Ltd

The sectionalisation took place on 31 March 2018 at which point asset and liability balances were transferred to the respective section relating to Npower Limited and the other participating employers in line with the terms and conditions of the Memorandum of Understanding (MoU).

As part of the sectionalisation of the innogy scheme into the two new schemes, with effect from 31 March 2018, accrued benefits and the associated share of fund assets were allocated to the retail section. The liabilities allocated to the retail section included all current retail actives. The retail section is ring-fenced from other sections operated by the innogy Group and other sections within the ESPS, and is funded by the Company and other employers in the npower Retail Group.

The retail section is accounted for as a defined benefit multi-group scheme under IAS 19R (Employee Benefits) by Npower Limited and as a defined contribution scheme by all other participating employers in the retail section. The assets and liabilities of the retail section were transferred to the Company, as the principal employer, on 1 April 2018, a corresponding entry to equity was made to incorporate the retail section on the balance sheet. Prior to 1 April 2018 the defined benefit pension scheme was accounted for as a defined contribution scheme, in line with IAS 19R (Employee Benefits), as the Company, along with the other employers in the group, were unable to identify its share of the underlying assets and liabilities on a reasonable and consistent basis.

In addition to the defined benefit scheme, there was also a defined contribution scheme within the innogy Group of the Electricity Supply Pension Scheme; the Defined Contribution Section of the innogy Group of the ESPS.

During 2009, the decision was taken to close the defined benefit scheme described above to new entrants. New employees are now only able to participate in a defined contribution scheme.

13 Pension scheme funding (continued)

Defined contribution pension scheme

Contributions totalling £1.8 million (2017: £1.3 million) were paid into defined contribution sections of the scheme by the Company.

Defined benefit pension schemes

The last valuation of the innogy Group of the ESPS was carried out on 31 March 2016 and showed a deficit of £377.7m. A deficit repair plan was prepared to rectify the deficit, under which npower Retail Group will pay £284.9m. Annual payments commenced in 2017 of £71.4m and reduced in 2018 to £26.7m and thereafter remain constant through to 2025. The scheduled 2018 payment of £26.7m was paid early in 2017 and therefore there was no payment made during 2018. The next valuation of the scheme will be calculated as at 31 March 2019, from this point in time the innogy group and the trustees have 15 months to approve the valuation. The innogy Group of the ESPS is managed by nine trustees who are responsible for the overall management of the pension scheme, including investment of assets, payment of benefits to members and agreement of a funding plan with the Company.

Provisions for defined benefit plans are determined using actuarial methods. The npower Retail Group applies the following assumptions:

	2018
	%
Discount rate	2.9
Rate of RPI inflation	3.2
Rate of CPI inflation	2.1
Rate of salary increases	3.2
Rate of increase in pensions in payment	
- Main, 60ths and Executive sections	3.0
- 2005 section	2.1
Rate of increase in pension in deferment	
- Main section	3.2
- 2005 section	2.1

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

As at 31 December 2018, mortality rates for the UK plans are assumed to be in line with S2PA tables, with scaling factors applied to reflect the experience of different sections of the membership. To allow for future improvements in longevity, these mortality tables are projected by year of birth in line with the 2017 CMI projections with a long-term rate of improvement of 1.5% p.a. for males and females. Illustrative life expectancies are set out in the table below:

13 Pension scheme funding (continued)

	2018
Life expectancy of a male aged 65 (role and salary dependent)	Years
- Current	20.2 - 22.8
- Future	22.5 - 24.9
Life expectancy of a female aged 65	
- Current	24.0
- Future	26.1
Average duration of liabilities	25.0

Analysis of assets

The major categories of scheme assets are as follows:

	2018
	£ m
Equities	81.1
Government bonds	101.1
Corporate bonds	49.0
Hedge fund	86.6
Other	17.0
	334.8

13 Pension scheme funding (continued)

As at 31 December 2018

	Level 1	Level 2	Level 3	Total	
	£ m	£ m	£ m	£ m	%
Equity Instruments					
Global Equities	-	81.1	-	81.1	24
	-	81.1	-	81.1	24
Debt Instruments					
Government	-	101.1	-	101.1	30
Corporate	-	49.0	-	49.0	15
	-	150.1	-	150.1	45
Other					
Hedge funds	-	86.6	-	86.6	26
Liquidity cash funds	-	6.7	-	6.7	2
Net current assets	-	10.3	-	10.3	3
	-	103.6	-	103.6	31
Total	-	334.8	-	334.8	100

Key

Level 1 - Valuation based on quoted prices in active markets for identical assets at the measurement date.

Level 2 - Valuation based on inputs other than quoted market prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 - Valuation based on unobservable inputs for the asset or liability.

The investment goal of the trustees in the United Kingdom is to acquire suitable assets with appropriate liquidity and security, which generate income and capital gains, and together with the contributions of employees and employers are adequate to cover the costs for accrued and future provisions. In the course of this, the trustees seek to limit the risk that the plan assets will not be sufficient to meet the pension obligations. This also serves to lower the risk of future increases in contributions by employers in the event of deterioration in market conditions in the future. This long-term target portfolio management approach divides the portfolio into income and capital generating investments, with a transition from income to capital generating investments to occur as the remaining term of the obligations grows shorter.

The trustees have agreed to determine the investment risk in relation to the obligations. The goal of this investment risk is to achieve a higher return than would be the case with congruent assets.

13 Pension scheme funding (continued)

At the same time, a cautious approach is taken with regard to fulfilling the scheme's obligations. In addition to the goal of achieving suitable overall investment risk, the trustees attempt to diversify risk across several different sources. The trustees seek to take risks for which they will be rewarded over time in the form of surplus returns. For some asset classes, the scheme's trustees have decided to use active management and have selected investment managers, which they believe have the ability and judgement to generate a profit after the deduction of expenses. Furthermore, an appropriate portion of the obligations' interest and inflation risk is to be hedged using the plan assets. This occurs via investment in corporate bonds, nominal and inflation-linked government bonds and derivative positions, which exhibit interest and inflation sensitivity similar to the obligations.

All fair values are provided by the fund managers. Where available, fair values are based quoted prices (listed equity, government and corporate bonds). Other fair value are provided by the fund manager in accordance with relevant guidance.

Reconciliation of opening liability and closing scheme assets

	2018
Scheme liabilities	**£ m**
Present value on sectionalisation	380.4
Current service cost	12.1
Past service cost	0.8
Interest cost on defined benefit obligation	6.3
Contributions by scheme participants	2.8
Benefits paid	(1.2)
Change in financial assumptions	(18.1)
Change in demographic assumptions	(3.2)
Experience gains on scheme liabilities	(45.2)
Present value at end of year	334.7

13 Pension scheme funding (continued)

	2018
Scheme assets	**£ m**
Fair value on sectionalisation	323.6
Interest income on scheme assets	6.2
Return on scheme assets, excluding interest income	20.2
Administration expenses	(0.9)
Contributions by employer	9.1
Contributions by scheme participants	2.8
Benefits paid	(1.2)
Actuarial gains due to change in allocation	(25.0)
Fair value at end of year	334.8

All pension schemes are funded pension plans. The funding level was 100% at 31 December 2018.

Through its defined benefit pension plans, the group is exposed to a numbers of risks, the most significant of which are detailed below.

Asset volatility
The plan liabilities are calculated using a discount rate set with reference to UK corporate bond yields. If plan assets underperform this yield, this will create a deficit. The assets contain a significant amount of equities, which provide volatility in the short term.

Changes in bond yields
A decrease in corporate bond yields will increase plan liabilities. The dependence of pension provisions on market interest rates is limited by a counteracting effect. This is because the obligations arising from corporate pension plans are largely funded and the plan assets are largely negatively correlated to the market yields on fixed-interest securities. Therefore, declines in market interest rates are typically reflected in rises in plan assets and vice-versa.

Life expectancy
The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

13 Pension scheme funding (continued)

Changes in actuarial assumptions would lead to the following changes in the projected benefit obligation.

	2018	
	+1%	-1%
Adjustment to discount rate	**£ m**	**£ m**
(Decrease)/Increase - Present value of total obligation	(68.0)	95.0
	+1%	**-1%**
Adjustment to rate of salary growth	**£ m**	**£ m**
Increase/(Decrease) - Present value of total obligation	45.0	(33.0)
	+1 year	**-1 year**
Adjustment to mortality age rating assumption	**£ m**	**£ m**
Increase - Present value of total obligation	8.0	N/a
	+1%	**-1%**
Adjustment to pension increases	**£ m**	**£ m**
Increase/(Decrease) - Present value of total obligation	40.0	(34.0)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

14 Tax on loss

Tax charged in the Profit and Loss Account:

	2018 £ m	2017 £ m
Current taxation		
Group relief payable	11	10
Adjustments in respect of previous years	(1)	-
Total current tax charge	10	10
Deferred taxation		
Origination and reversal of temporary differences	7	(8)
Adjustments in respect of previous years	-	(1)
Total deferred tax (credit)/charge	7	(9)
Total tax charge	17	1

The tax assessed on the loss before taxation is higher than the standard rate of corporation tax in the UK (2017: higher than the standard rate of corporation tax in the UK) of 19% (2017: 19.25%).

The differences are reconciled below:

	2018 £ m	2017 £ m
Loss before taxation	(53)	(30)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(10)	(6)
Expenses not deductible for tax purposes	29	7
Adjustments in respect of prior years	(1)	(1)
Difference between current and deferred tax rates	(1)	1
Total tax charge	17	1

Tax included in Other Comprehensive Income	2018 £ m	2017 £ m
Profit recorded in Other Comprehensive Income	6	-
Profit recorded in Other Comprehensive Income multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	1	-
Total tax charge included in Other Comprehensive Income	1	-

14 Tax on loss (continued)

The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate which decreased from 20% to 19% from 1 April 2017.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Debtors: Amounts falling due after more than one year

Deferred tax assets

2018	**Asset £ m**
Accelerated tax depreciation	50
Other items	(15)
	35

2017	**Asset £ m**
Accelerated tax depreciation	45
Other items	(2)
	43

All balances relate to deferred tax assets and there has been no offsetting. The deferred tax assets are expected to be recovered as follows:

	2018 £ m	**2017 £ m**
To be recovered after more than 12 months		
Deferred tax asset	35	43
	35	43

14 Tax on loss (continued)

Deferred tax movement during the year:

	At 1 January 2018 £ m	Recognised in Profit and Loss Account £ m	Recognised in other comprehensive income £ m	At 31 December 2018 £ m
Accelerated tax depreciation	45	5	-	50
Other items	(2)	(12)	(1)	(15)
Deferred tax assets	43	(7)	(1)	35

Deferred tax movement during the prior year:

	At 1 January 2017 £ m	Recognised in Profit and Loss Account £ m	At 31 December 2017 £ m
Accelerated tax depreciation	36	9	45
Other items	(2)	-	(2)
Deferred tax assets	34	9	43

15 Intangible assets

	Goodwill £m	Computer Software £m	Intangible Assets Under Construction £m	Total £m
Cost				
At 1 January 2018	156	302	93	551
Additions	-	26	20	46
Disposals	-	(2)	-	(2)
Transfers	-	81	(80)	1
At 31 December 2018	156	407	33	596
Accumulated amortisation				
At 1 January 2018	-	156	-	156
Amortisation charge	-	36	-	36
Impairment charge	109	-	-	109
Disposal	-	(2)	-	(2)
At 31 December 2018	109	190	-	299
Carrying amount				
At 31 December 2018	47	217	33	297
At 31 December 2017	156	146	93	395

Goodwill relates to historical acquisitions from the early 2000's.

Following the adoption of FRS 101 the Company no longer amortises goodwill. Previously the Company amortised goodwill over 20 years with an annual charge of £28 million.

An impairment test is performed annually to determine if there is any need to write down goodwill. This review is updated at the balance sheet date and for post balance sheets events. In this test, the Company is assessed as the single cash-generating unit. The recoverable amount of the cash-generating unit is determined, which is defined as the higher of fair value less disposal costs 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.

During the financial year an impairment charge of £109 million was recognised (2017: £nil), full disclosure has been made in note 5.

16 Tangible assets

	Land and buildings	Furniture, fittings and equipment	Assets under construction	Other property, plant and equipment	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2018	4	12	6	6	28
Additions	-	2	5	-	7
Transfers	-	-	(1)	-	(1)
At 31 December 2018	4	14	10	6	34
Accumulated depreciation					
At 1 January 2018	-	7	-	2	9
Charge for the year	-	2	-	-	2
Disposals	-	-	-	-	-
At 31 December 2018	-	9	-	2	11
Carrying amount					
At 31 December 2018	4	5	10	4	23
At 31 December 2017	4	5	6	4	19

17 Investments

	Subsidiary undertakings £ m
Cost	
At 1 January 2018	33
At 31 December 2018	33
Impairment	
At 1 January 2018	5
Charge during the year	28
At 31 December 2018	33
Carrying amount	
At 31 December 2018	-
At 31 December 2017	28

17 Investments (continued)

During the year an impairment charge of £28 million was recognised against the investment in Npower Gas Limited (2017: £5 million impairment charge against RUMM Limited), full disclosure has been made in note 5.

Details of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest through ordinary shares and voting rights held 2018	2017
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 Services Limited	Gas shipping	England and Wales	100%	100%
RUMM Limited	In liquidation	England and Wales	100%	100%
PS Energy UK Limited	Energy supplier	England and Wales	100%	100%

The registered office of all subsidiaries listed above is Windmill Hill Business Park, Whitehill Way, Swindon, SN5 6PB.

Investments in group undertakings are stated at cost less any provision for impairment. At 31 December 2017 the investment in RUMM Limited was impaired in full as the trade and assets have been transferred to Npower Limited. RUMM Limited will be liquidated in due course.

18 Stocks

	2018 £ m	2017 £ m
Raw materials and consumables	3	2

19 Debtors: Amounts falling due within one year

	2018 £ m	2017 £ m
Trade debtors	657	617
Amounts owed by group undertakings	710	996
Other debtors	1	2
Accrued income	380	369
Prepayments	88	39
Total debtors	1,836	2,023

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Trade debtors are stated after provisions for impairment of £25 million (2017: £25 million).

20 Fair value through OCI financial assets

	2018 £ m	2017 £ m
Telecom Plus plc shares	6	5

The Company holds 426,989 shares in Telecom Plus plc (2017: 426,989 shares). The investment is recorded at fair value with gains/(losses) recognised through other comprehensive income, as at 31 December 2018 this was £6,114,482 (2017: £5,128,138), based on a closing mid market price of £14.32 per ordinary share (2017: £12.01 per ordinary share).

The transition to IFRS 9 during 2018 resulted in the reclassification of the Telecoms Plus shareholding from an 'Available for sale' financial asset to a 'Fair value through other comprehensive income' financial asset. There has been no financial impact as a result of these changes. Upon disposal cumulative gains or losses will be transferred from other comprehensive income to retained earnings. The accounting policy disclosing the implementation of IFRS 9 can be found on page 21.

21 Creditors: Amounts falling due within one year

	2018 £ m	2017 £ m
Bank overdrafts	1	4
Loans owed to group undertakings	487	844
Customer payments in advance	43	33
Trade creditors	96	79
Amounts owed to group undertakings	657	627
Other payables	3	4
Social security and other taxes	74	25
Accrued expenses	758	677
Total creditors	2,119	2,293

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment and include £20m of group relief payable (2017: £16 million).

Cash surpluses and deficits in each npower Retail Group company are swept on a daily basis and recognised as loans owed to/by group undertakings to minimise cash balances. Interest is calculated on a daily basis and interest rates reflect the overall cost of borrowing or deposit rates and are updated where required. All loans within this financing arrangement mature on 30 December 2021.

The Company has a loan agreement with Npower Group Limited. The book value at 31 December 2018 and the associated principal amounts lent under this agreement totalled £487m. The loan is unsecured and at 31 December 2018 bore interest at a rate of 1.067% (2017: 1.56%). Loans owed by group undertakings also include accrued interest payable on the loan agreement.

22 Obligations under leases and hire purchase contracts

Operating leases

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

	2018 £ m	2017 £ m
Within one year	5	3
In two to five years	18	2
In over five years	10	-
	33	5

The amount of non-cancellable operating lease payments recognised as an expense during the year was £5 million (2017: £3 million).

23 Share-based payments

For executives of the npower Retail Group, there existed until 2016 a group-wide share-based payment system known as BEAT 2010, that was oriented towards RWE AG's share price. As part of the IPO of innogy SE in 2016 a new Long-term Incentive Plan, the Strategic Performance Plan (SPP) was devised. Any executive wishing to take part in the SPP had to forego their rights to the BEAT plan. All executives employed by the npower Retail Group agreed to the terms of the SPP and only past executives classed as 'good-leavers' retain benefits under the BEAT plan, as the value of these benefits is immaterial no disclosure is made for the BEAT plan within these accounts.

Scheme description
The new SPP uses an internal performance target derived from the medium-term planning (adjusted net income of innogy SE) and takes account of the development of innogy SE's share price. The executives receive a number of notional shares. The final number of the notional shares of a tranche is determined after each year, based on the degree to which the target adjusted net income is achieved. This is followed by a three-year vesting period before any potential pay-out.

	Strategic Performance Plan		
	2016 tranche	2017 tranche	2018 tranche
Start of term	1 January 2016	1 January 2017	1 January 2018
Number of conditionally granted performance shares	24,810	81,978	65,754
Performance target	Adjusted net income	Adjusted net income	Adjusted net income
Term	4 years	4 years	4 years
Cap /number of performance shares	150%	150%	150%
Cap /payment amount	200%	200%	200%
Determination of payment	The payment amount is calculated on the basis of the determined number of finally granted performance shares multiplied by the sum of: a) the mathematical average of the closing share prices (including all available decimal places) of the innogy SE share (ISIN DE 000A2AAD02) in Deutsche Börse AG's Xetra trading (or a successor system which subsequently takes the place of the Xetra system) for the last 30 trading days prior to the end of the vesting period rounded to two decimal places according to standard commercial practice; and b) the dividends paid per share for the fiscal years between the determination of the performance shares and the end of the vesting period. Dividends do not bear interest and are not reinvested. If a dividend payment occurs during the 30-day period for calculating the share price, the share prices of the trading days leading up to the payment (CUM share prices) are adjusted by the dividend, as the dividend would otherwise be considered twice.		

23 Share-based payments (continued)

	Payment amount = (number of finally granted performance shares) x (mathematical average of the share price + dividends paid)		
Change in corporate control/ merger	A change in corporate control ("change of control") shall occur if: a) a shareholder gains control in accordance with Section 29 of the German Securities Acquisition and Takeover Act (WpÜG) by holding at least 30 % of the voting rights including third-party voting rights attributable to it in accordance with Section 30 WpÜG or b) a control agreement in accordance with Section 291 of the German Stock Corporation Act (AktG) is concluded by a company that does not belong to the RWE Group with innogy SE as a dependent company; or c) innogy SE is merged with another legal entity that does not belong to the Group in accordance with Section 2 of the German Company Transformation Act (UmwG) unless the value of the other legal entity is less than 50 % of the value of innogy SE based on the agreed conversion rate; in such a case, item a) shall not apply. In the event of a change of control, the performance shares that fully vested and have not yet been paid out shall be paid out early. The payment amount shall be calculated by applying exercise conditions analogously, wherein in deviation here from, the basis of calculation shall be the last 30 stock exchange trading days before the announcement of the change of control in addition to the dividends paid per share in the fiscal years between the vesting of the performance shares and the effective date of the change of control relative to the fully vested performance shares. The payment amount calculated in this manner shall be paid to the plan participant together with his or her next salary payment. All conditionally granted performance shares as of the effective date of the change of control shall lapse without consideration.		
Form of settlement	Cash settlement	Cash settlement	Cash settlement
Payment date	2020	2021	2022

The fair values of the performance shares conditionally granted in the SPP programme as of the grant date are shown in the following table:

Performance shares from SPP	2016 tranche	2017 tranche	2018 tranche
	£	£	£
Fair value per share	33.21	28.69	32.90

The fair values of the performance shares at the time of pay-out is influenced by the E.ON/RWE transaction which was announced in March 2018 insofar as the above rules for a change of control affect the valuation. The anticipated payment amount is determined on the basis of the average innogy share price for the last 30 trading days prior to 11 March 2018, plus the dividend paid in fiscal 2018 and the expected payment for fiscal 2019.

23 Share-based payments (continued)

As of 31 December 2016, 2017 and 2018, the number of performance shares developed as follows:

Performance shares from SPP 2016	2016 tranche	2017 tranche	2018 tranche
Outstanding at 1 January 2016	-	-	-
Granted	24,810	-	-
Change (granted/expired)	(2,609)	-	-
Paid out	-	-	-
Outstanding 31 December 2016/ 1 January 2017	**22,201**	-	-
Payable at 31 December 2016	-	-	-
Granted	-	81,978	-
Change (granted/expired)	-	(9,166)	-
Paid out	-	-	-
Outstanding 31 December 2017/ 1 January 2018	**22,201**	**72,812**	-
Payable at 31 December 2017	-	-	-
Granted	-	-	65,754
Change (granted/expired)	-	-	(6,169)
Paid out	-	-	-
Outstanding 31 December 2018	**22,201**	**72,812**	**59,585**
Payable at 31 December 2018	-	-	-

During the period under review, expenses for share-based payments totalled £2m (2017: £1m).

As of the balance-sheet date, provisions for cash-settled share-based payments amounted to £3m (2017: £1m).

24 Derivative financial assets/(liabilities)

At 31 December 2018, derivative financial assets/(liabilities) outstanding related to power trades and swaps. The derivative financial assets mature over the period 2019 to 2023.

	2018 £ m	2017 £ m
Commodity derivatives	114	38

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

Financial instruments by category

2018 Assets as per balance sheet	Assets at amortised cost £ m	Assets at fair value through OCI £ m	Assets at fair value through profit & loss £ m	Total £ m
Derivative commodity instruments	-	-	114	114
Available for sale financial assets	-	6	-	6
Trade & other receivables excluding prepayments	1,369	-	-	1,369
Total	1,369	6	114	1,489

2018 Liabilities as per balance sheet	Other financial liabilities at amortised cost £ m	Total £ m
Borrowings	487	487
Trade and other payables excluding non-financial liabilities	1,593	1,593
Total	2,080	2,080

2017 Assets as per balance sheet	Loans & receivables £ m	Available for sale £ m	Assets at fair value through profit & loss £m	Total £ m
Derivative commodity instruments	-	-	38	38
Available for sale financial assets	-	5	-	5
Trade & other receivables excluding prepayments	1,984	-	-	1,984
Total	1,984	5	38	2,027

The implementation of IFRS 9 resulted in the reclassification of financial assets. There was no financial impact as a result of this reclassification. Further disclosure has been made in note 20.

24 Derivative financial assets/(liabilities) (continued)

2017 **Liabilities as per balance sheet**	**Other financial liabilities at amortised cost** **£ m**	**Total** **£ m**
Borrowings	844	844
Trade and other payables excluding non-financial liabilities	1,415	1,415
Total	2,259	2,259

Valuation methods and assumptions

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.

	Level 1 **2018** **£ m**	**Level 2** **2018** **£ m**	**Level 3** **2018** **£ m**	**Total** **£ m**
Commodity derivatives	-	114	-	114
Total	-	114	-	114

	Level 1 **2017** **£ m**	**Level 2** **2017** **£ m**	**Level 3** **2017** **£ m**	**Total** **£ m**
Commodity derivatives	-	38	-	38
Total	-	38	-	38

24 Derivative financial assets/(liabilities) (continued)

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

	Assets/ (liabilities) at fair value through profit and loss 2018 £ m	Assets/ (liabilities) at fair value through profit and loss 2017 £ m
Due within one year	70	17
Due in more than one year and less than two years	39	19
Due in more than two years and less than five years	5	2
Total	114	38

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 innogy SE. 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 of RWEST and the majority shareholder of innogy SE. Due to the nature of the relationship between RWEST and Npower Limited, the exposure to credit risk is considered small.

None of the derivative financial assets are past due or impaired as at 31 December 2018.

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.

24 Derivative financial assets/(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.

As at 31 December 2018	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
Commodity derivatives	181	(67)	114
Total	181	(67)	114

As at 31 December 2017	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
Commodity derivatives	81	(43)	38
Total	81	(43)	38

(b) Financial liabilities

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

As at 31 December 2018	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
Commodity derivatives	(67)	67	-
Total	(67)	67	-

As at 31 December 2017	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
Commodity derivatives	(43)	43	-
Total	(43)	43	-

25 Provisions for liabilities

	Liabilities and claims £ m	Restructuring £ m	Other provisions £ m	Total £ m
At 1 January 2018	6	3	5	14
Additional provisions	-	-	1	1
Increase in existing provisions	7	10	3	20
Provisions used	-	(4)	(5)	(9)
Unused provision reversed	(9)	(2)	(1)	(12)
At 31 December 2018	4	7	3	14

The liabilities and claims provision relate to ongoing investigations by and potential claims from organisations into certain aspects of the Company'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 that relate to Npower Limited and are expected to be utilised within 12 months.

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.

Other provisions include liabilities held by Npower Limited with regard to long term incentive schemes.

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

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 2018 the total value of these guarantees amounted to £21 million (2017: £21 million).

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 due to the Company being part of the Npower Group Limited treasury arrangements.

27 Called up share capital

Allotted, called up and fully paid shares

	2018		2017	
	No.	£	No.	£
Ordinary shares of £1 each	101,000,001	101,000,001	101,000,001	101,000,001

28 Controlling parties

The name of the parent undertaking of the smallest group in whose consolidated financial statements the Company's financial statements are consolidated is innogy SE, a company incorporated in Germany. These financial statements are available upon request from innogy SE, Opernplatz 1, D-45128 Essen, Germany.

The ultimate parent company and controlling party is RWE AG, a company incorporated in Germany, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of RWE AG consolidated financial statements can be obtained from RWE AG, Huyssenallee 2, 45128 Essen, Germany.

The Company is controlled by Npower Group Limited (the immediate parent), a company incorporated in the United Kingdom and registered in England and Wales.