Registration number: 03653277

Npower Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

Npower Limited
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Npower Limited
Strategic Report for the year ended 31 December 2019

The directors present their Strategic Report on Npower Limited ("the Company") for the year ended 31 December 2019.

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		
Npower Yorkshire Limited	X			
Npower Gas Limited	X			
E.ON Next Energy 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	

* Npower Direct Limited changed name to E.ON Next Energy Limited
** 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 £177 million in 2019 (2018: loss of £65 million).

General

Trading

2019 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 Ofgem price cap has also had a significant impact in the market, the cap being set at a level that only allows the most efficient energy companies to make a profit.

In the first quarter of the year, 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 npower Retail Group announced a programme to reduce its operating costs under a programme to focus on the 'Valuable Core'. The Valuable Core initiative led to a reduction of around 900 roles over the course of 2019.

E.ON and RWE asset swap

The asset swap transaction between RWE AG and E.ON concluded on 18th September 2019. The transaction has resulted in the Retail businesses of innogy SE, which include npower Retail Group, transferring to E.ON from RWE AG.

On 29th November 2019, it was announced that customers of npower Retail Group's Home and npower Business segments would transfer to E.ON UK systems commencing Q2 2020 with completion scheduled for mid-2021. The transfer of these customers was formalised in a Sale and Purchase Agreement (SPA) on 11th February 2020. Under the SPA, E.ON UK has become the principal employer of the Retail section of innogy pension scheme with the pension obligation being transferred to E.ON UK on 1st April 2020.

The migration of customers to E.ON UK will also see the closing of the operational segments for the Home and npower Business with related office closures and the loss of around 4,500 employees. The npower Retail Group offers enhanced redundancy terms which will continue to apply for those employees who are made redundant as part of this process. The financial impact in 2019 across the npower Retail Group has been to increase the restructuring provision, create provisions and accruals for onerous contracts and impair certain goodwill, intangible assets and PPE. Impairment charged during the year was £233 million (2018: £137 million).

The restructure of the joint npower and E.ON businesses in the UK resulted in changes in the management of the npower Retail Group. Michael Lewis, the Chief Executive Officer (CEO) of E.ON UK, replaced Paul Coffey as CEO of the npower Retail Group with Simon Stacey replacing Dirk Simons as Chief Financial Officer.

The npower Business Solutions segment is to merge with E.ON's Industrial and Commercial segment. Npower Business Solutions customers will be moved to the Junifer billing platform and the business will then be sold to E.ON UK plc, this is likely to occur in the first half of 2021.

Loan restructuring

In December 2019, Npower Group Limited, the intermediate parent company, waived loans owed to it by certain subsidiary companies, either in full or in part. This resulted in a significant increase in other operating income of the subsidiary companies where a loan waiver was agreed. The subsidiary companies impacted by a loan waiver include: Npower Limited, Npower Northern Limited, Npower Yorkshire Limited, Npower Gas Limited and Npower Commercial Gas Limited.

General (continued)

Coronavirus / COVID-19

The global spread of the coronavirus and the measures taken to control it substantially limited economic activity over the course of the first half of 2020 across the globe and, in turn, the United Kingdom. In the year underway, the UK economy has slipped into recession due to the COVID-19 pandemic and the countermeasures taken. The third quarter of 2020 saw the UK economy growing again, though the recession is over, the economy is almost 10% smaller than it was before the pandemic and with ongoing disruption it is difficult to predict the full impact on the economy.

The npower Retail Group has identified economic risks from the crisis including sales shortfalls, particularly with Business to Business (B2B) customers. Moreover, there is a risk that customers may suffer hardship as a consequence of the COVID-19 pandemic, rendering them unable to settle their accounts payable for electricity and gas purchases.

The npower Retail Group has already in 2020 experienced the adverse effects of the necessary resale of electricity and gas volumes at lower market prices as the npower Retail Group can no longer sell them due to the decline in demand as a result of the downturn in the economy.

However, due to the substantial uncertainty caused by the persistent COVID-19 pandemic, only limited statements can be made regarding its development and impacts over the course of 2020 and beyond.

Brexit

The UK left the European Union on 31st January 2020. 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.

Further details of the performance in 2019, including the outlook for 2020, are included in the segmental reviews below.

Home

2019 Npower Home financial results were significantly impacted by the default price cap introduced by Ofgem effective from 1st January 2019 and, as expected, reported a higher loss compared to that incurred in 2018. Additionally, 2019 saw record switching in the residential market with more than 10m customers switching supplier, surpassing the previous high of 2018, which itself had been the highest since 2008.

The Home commercial strategy continued to be to win and retain valuable customers and not to compete at uneconomic and unsustainable low margins and as a result the customer account base fell by a further 17% to 3.2m, c0.6m lower than at the end of 2018. Operationally, Home continued to improve and delivered a good performance in 2019 and overall complaints per 100,000 customers dropped by 13% compared to the end of 2018 with the Home relative complaints position maintained at 3rd of the 'Big 6' suppliers.

Looking ahead, the priority for npower Home in 2020 and 2021 is to fully migrate its customer base to the E.ON UK platform as quickly and efficiently as possible whilst providing continuing good customer service, remaining compliant with regulations, meeting its financial targets and delivering on our smart meter obligations.

npower Business Solutions

2019 was a year of strong operational delivery and preparation for the future for Business Solutions. The key milestone in the year was the successful migration of Gas customers onto the Junifer billing platform, enabling improvements to efficiency and customer experience as well as building confidence as the segment advances towards power migration in 2020.

In market position terms, Business Solutions maintained a 2nd place market share by volume in UK B2B Electricity, supplying an annualised 24.3TWh (terawatt hours) of power. The UK Gas market remains an opportunity for the segment, with Business Solutions holding a 10th ranking by market share of B2B Gas volumes. The segment remains a major player in the UK Power Purchase Agreement off-taker market, as well as supplying metering services and on-site energy management and efficiency solutions for customers.

Both segmental gross margin and operating profit demonstrated growth from the prior year comparators, reflecting strong underlying operating performance. Earnings for the year were impacted once again by IT programme implementation costs for Project Pavement and mutualisation of industry costs following the failure of further small suppliers.

The Junifer billing project is a fundamental transformation and IT re-platforming programme which will see significant reductions to headcount and the introduction of far greater digital capability for customers. The programme continues into 2020 and is expected to complete in that year.

The segment's key priorities remain to be as operationally excellent as possible, deliver the Junifer transformation and to sustainably grow the business. Looking ahead to 2020 the segment will also need to play a part in the integration of innogy SE into E.ON UK.

Promoting the success of the Company and Section 172 Statement of the Companies Act 2006 ('Act')
The directors' overarching duty is to promote the success of the Company for the benefit of its shareholders, with consideration of stakeholders' interests, as set out in section 172 of the Act.

The directors are aware of their duty under section 172 of the Act to act in a way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard (amongst other matters) to the factors detailed in section 172(1) of the Act.

During 2019, the Company was a wholly owned subsidiary of innogy SE, a company, which throughout 2019 was listed on the Frankfurt stock exchange and strongly committed to responsible corporate governance in line with the recommendations of the German Corporate Governance Code, detailed in the Corporate Governance Report for innogy, available through investor relations section of the innogy website and referenced on page 7 of the innogy 2019 annual report (https://iam.innogy.com/en/about-innogy/investor-relations).

The directors of the Company were also required to adhere to the sustainability approach set out on page 95 of the innogy SE 2019 annual report. While their actions shape the success of the Company, they also have an impact on our people and the environment. As directors of a wholly owned subsidiary of innogy SE they were committed to the innogy Code of Conduct, which applies to innogy SE as well as directly and indirectly affiliated companies in and outside of Germany. The corporate governance declaration details our conduct to customers, shareholders, the public and our employees, and is also available from within the investor relations section of the innogy SE website, linked above.

The merger of innogy SE into E.ON Verwaltungs SE became legally effective on 2 June 2020. innogy SE therefore ceased to exist on that date. In addition, E.ON Verwaltungs SE changed its company name into innogy SE as of 2 June 2020. E.ON SE is listed on the Frankfurt Stock Exchange and, like innogy SE, is bound by the German Corporate Governance Code.

The board of management of E.ON SE manages the group's operations on a global and divisional basis. The E.ON SE group has detailed policies and governance frameworks within which its subsidiaries must operate, including the Company. From the perspective of the directors, due to the E.ON SE group governance structure, the matters that they are responsible for considering under section 172(1) of the Act are also considered to an appropriate extent by the E.ON SE group management board in relation both to the E.ON SE group and the Company. Going forward, the directors consider the factors detailed under section 172(1) of the Act but are directed by the strategy set by the board of management of E.ON SE.

To the extent necessary for an understanding of the development, performance and position of the entity, the Company's directors believe that the requirements of section 172(1) are discussed within the E.ON SE Annual Report 2019 on pages 6 to 85, which does not form part of this report. Further detail in relation to the Company's consideration of section 172(1) of the Act is set out in the Directors' Report.

The Board regards a well-governed business as essential for the successful delivery of its principal activity and the activities of the Transformation UK programme as set out in the business review and future developments from page 1. The npower management board directs the operations of the Company which is aligned with the group governance set out above and in line with section 172 of the act, the change in ownership to E.ON SE has not significantly impacted the way the Company is governed.

Position of the Company

The Company's profit for the financial year ended 31 December 2019 was £86 million (2018: loss of £70 million). The net assets of the Company at 31 December 2019 were £241 million (2018: £181 million).

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. These risks are not managed on a legal entity basis, but overseen for the 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. The COVID-19 pandemic increases the risks to the Company as set out above. Detailed discussions of these risks and opportunities, in the context of the innogy SE Group as a whole are provided on pages 79 through 88 of the innogy SE 2019 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 26 November 2020 and signed on its behalf by:

....
Mr S Stacey
Director

Npower Limited
Directors' Report for the year ended 31 December 2019

The directors present their report on the Company and the audited financial statements for the year ended 31 December 2019.

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 (2018: £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

Mr J Scagell

Mr S Stacey

Mr P Sharman (resigned 30 November 2019)

Mr D Titterton (resigned 30 November 2019)

Mr C Thewlis (appointed 30 November 2019)

The following director was appointed after the year end:

Mr A Ainsworth (appointed 1 July 2020)

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 for at least the next 12 months. The basis of this assumption depends on the support of Npower Group Limited. Whilst Npower Group Limited had net current liabilities of £289m as at 31 December 2019, it has and continues to benefit from the support and access to funding from innogy SE. The Directors of Npower Group Limited believe this support will continue to be provided because:

• Npower plays a key role for the future of E.ON UK as its domestic customer base is currently being migrated to E.ON UK and E.ON UK's I&C business is due to be merged onto Npower's systems;

• Innogy SE recognises that the operations of Npower Group Limited's subsidiary companies will be subject to an orderly wind-down, or sale of assets and/or shares to E.ON UK plc over a period expected to take 24 months from February 2020, resulting in some or all of such companies ceasing to operate;

• Cash flow forecasts are produced regularly and submitted to the ultimate parent company as part of the annual three year planning process and these forecasts include assumptions on all expected cash flows in and out of the business including the impacts of COVID-19;

• 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 at least the next 12 months and up to completion of the winding-down of operations; and

• The majority of the expected funding requirement required to the completion of the winding-down has already been drawn down at the time of the approval of these accounts.

When considering all these factors, the Directors of Npower Group Limited have a high degree of certainty that the support from innogy SE will continue to be provided.

The Company received a letter of support from Npower Group Limited on 26th February 2020 which indicates that it will provide financial support to enable the Company to meet its liabilities as they fall due during the wind-down period. The Company's Directors also have a high degree of certainty that the support from innogy SE, via Npower Group Limited, will continue to be provided for the reasons noted above.

On 18th September, 2019 E.ON SE (E.ON) acquired RWE AG's (RWE) 76.8% majority stake in innogy SE (innogy1) as part of an extensive asset swap transaction. The main elements of this transaction were that E.ON acquired innogy1's Grid & Infrastructure and Retail businesses and in return, RWE has taken on both E.ON and innogy1's renewables businesses. RWE received a 16.67% stake in E.ON. Subsequently E.ON increased its shareholding in innogy1 to c90%, the remaining c10% minority shareholders retained their interests. innogy1 pursued a merger squeeze out process under German law to acquire this remaining minority holding.

On 2nd June 2020, that merger squeeze out process was completed and E.ON acquired the entire minority shareholding to become 100% owner of innogy1. At the same time, by operation of German law, innogy1 was merged into its immediate parent company E.ON Verwaltungs SE (E.ON V). Under this legal process, E.ON V became the legal successor to innogy1 and the assets and liabilities of innogy1 were assumed by E.ON V. On the same date (2nd June 2020), E.ON V changed its name to innogy SE. The new innogy SE (innogy2), although a separate German legal entity, is now legal successor to the letters of financial support in favour of Npower Group Limited from the old innogy SE (innogy1).

Going concern (continued)
On 29th November 2019, it was announced that customer accounts of the npower Retail Group's Home and npower Business segments would be migrated to E.ON UK plc (E.ON UK) systems commencing Q2 2020 with completion scheduled for mid-2021. Terms for the transfer of the related customers supply contracts were formalised in a Sale and Purchase Agreement (SPA) on 11th February 2020. Under the SPA E.ON UK has become the principal employer of the Retail section of innogy pension scheme with the pension obligation being transferred to E.ON UK on 1st April 2020. Under the SPA, ownership of each customer contract will transfer to E.ON Energy Solutions Limited (EESL) upon migration of the related customer account.

The npower Retail Group's Business Solutions segment is to merge with E.ON's Industrial and Commercial segment. Npower Business Solutions customers will be moved to the Junifer billing platform and the business will then be sold to E.ON UK plc, this is likely to occur in the first half of 2021.

The Company is a 100% owned subsidiary of the E.ON group and the innogy2 group. innogy2 group had a market capitalisation of €24.8 billion at the 2019 year end (2018: €22.4 billion) and employs around 35,000 employees. innogy2 group supplies over 14 million customers with electricity and over 4 million with gas across Europe, its key markets being in Germany, the Netherlands and the United Kingdom. In the year 2019, the innogy SE group recorded €35.4 billion (2018: €35.2 billion) in revenue and had a profit after tax of approximately €0.7 billion (2018: loss of €0.3 billion). Being a large group, innogy2 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.

Future decisions by E.ON SE could lead to some or all of the companies within the npower Retail group ceasing to trade. The Company's existing Home customers were sold to E.ON UK in February 2020, and these customers will migrate to E.ON UK. The Company will continue to serve npower Business Solutions customers, with all customers within that segment transferred to the Npower Commercial Gas Limited in 2021 prior to selling that company to E.ON UK plc. Given the above position, the financial statements of the Company have been prepared on a going concern basis, and this treatment will be reviewed on an annual basis.

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.

Stakeholder engagement statement
The directors' overarching duty is to promote the success of the Company for the benefit of its shareholders, with consideration of stakeholders' interests, as set out in section 172 of the Act. The Board regards a well-governed business as essential for the successful delivery of its principal activity.

The directors are aware of their duty under section 172 of the Act to act in a way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard (amongst other matters) to the factors detailed in section 172(1) of the Act.

During 2019 the Company was a wholly owned subsidiary of innogy SE, a company listed on the Frankfurt stock exchange and strongly committed to responsible corporate governance in line with the recommendations of the German Corporate Governance Code, detailed in the Corporate Governance Report for innogy, available through investor relations section of the innogy website and referenced on page 7 of the innogy 2019 annual report (https://iam.innogy.com/en/about-innogy/investor-relations).

Stakeholder engagement statement (continued)
The directors of the Company were also required to adhere to the sustainability approach set out on page 95 of the innogy SE 2019 annual report. While their actions shape the success of the Company, they also have an impact on our people and the environment. As directors of a wholly owned subsidiary of innogy SE they were committed to the innogy Code of Conduct, which applies to innogy SE as well as directly and indirectly affiliated companies in and outside of Germany. The corporate governance declaration details our conduct to customers, shareholders, the public and our employees, and is also available from within the investor relations section of the innogy SE website, linked above.

Conduct towards customers
We offer our customers a wide range of products and services in the energy supply industry. It is very important for us to deal with customers fairly, both in recognition of our regulatory obligations but also by putting customers at the centre of what we do including offering them suitable and efficient solutions.

Conduct towards shareholders
As a wholly owned subsidiary of innogy SE during 2019 the npower Retail Group aimed to follow the requirements of innogy and therefore the innogy shareholders' capital is the prerequisite and foundation of our business activities. We therefore aimed to preserve this capital and achieve returns on it in line with market conditions.

Conduct towards business partners
We advocate free competition and transparent markets and are against unfair competition and restrictions of competition. This means that we comply with requirements regarding tax levies, subsidy grants and procedures for awarding public contracts. Through our activities, we would like to set an example and work towards propagating the set of principles in our Code of Conduct. We therefore expect companies that enter into a business relationship with companies in the npower Retail Group to accept the principles in our Code of Conduct as the basis for the partnership. This happens by including the principles that are part of our innogy Code of Conduct in the contractual relationship. Should competing policies come into conflict with each other or the application of the principles of conduct not be possible during the course of the business relationship, we strive to agree on a common set of standards that is at least equal to the level of the UN Global Compact. If it becomes publicly known that a business partner has violated these responsibilities, we will re-examine our business relationship with that partner and take any appropriate measures that we deem necessary.

When choosing consultants and agents, we focus especially on their qualifications and integrity. In all business relationships, we observe the applicable national and international sanction and embargo directives as well as any other applicable foreign trade law restrictions. We also take all necessary and appropriate measures to prevent money laundering.

Conduct towards the public
During 2019 innogy published company information in accordance with German and international capital markets provisions in order to enable proper trading in company securities.

At the same time, non-public information that could reasonably be expected to significantly affect the price of company securities must remain confidential until it is officially released and must not be used as the basis for decisions about buying or selling securities. All communications from innogy are full, fair, accurate, timely and understandable. We respect the professional independence of journalists and the media.

Only authorised persons are allowed to disclose information concerning innogy or its subsidiaries to the public, the media or to other third parties.

Stakeholder engagement statement (continued)

Compliance management system

In order to minimise the risks of breaching the Code of Conduct, innogy provided a compliance management system. This serves to identify potential structural risks of corruption in the company. The measures necessary for removing or minimising the risks will be carried out, communicated regularly, monitored and continuously improved. This way, we wish to establish a compliance culture that meets the highest standards across the entire Group.

Future conduct

The merger of innogy SE into E.ON Verwaltungs SE became legally effective on 2 June 2020. innogy SE therefore ceased to exist on that date. In addition, E.ON Verwaltungs SE changed its company name into innogy SE as of June 2, 2020.

E.ON SE is listed on the Frankfurt Stock Exchange and, like innogy SE, is bound by the German Corporate Governance Code. The two main operating divisions of the E.ON SE group are Energy Networks and Customer Solutions.

The board of management of E.ON SE manages the group's operations on a global and divisional basis. The E.ON SE group has detailed policies and governance frameworks within which its subsidiaries must operate, including the Company. From the perspective of the directors, due to the E.ON SE group governance structure, the matters that they are responsible for considering under section 172(1) of the Act are also considered to an appropriate extent by the E.ON SE group management board in relation both to the E.ON SE group and the Company. Going forward, the directors consider the factors detailed under section 172(1) of the Act but are directed by the strategy set by the board of management of E.ON SE.

To the extent necessary for an understanding of the development, performance and position of the entity, the Company's directors believe that the requirements of section 172(1) are discussed within the E.ON SE Annual Report 2019 on pages 6 to 85, which does not form part of this report. Further detail in relation to the Company's consideration of section 172(1) of the Act is set out in the Directors' Report.

Employee engagement statement

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.

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 79 to 88 of the innogy SE 2019 Annual Report.

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

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

Liquidity risk
The Company forms part of the Npower Group 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.

Financial risk management (continued)

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.

Npower Limited
Directors' Report for the year ended 31 December 2019 (continued)

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.

Directors' confirmations

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 26 November 2020 and signed on its behalf by:

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Mr S Stacey
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 2019 and of its profit 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 2019; 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability 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 2019 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, 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.

Npower Limited
Independent auditors' report to the members of Npower Limited (continued)

Responsibilities for the financial statements and the audit (continued)

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.

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

26 November 2020

Npower Limited
Profit and Loss Account for the year ended 31 December 2019

	Note	2019 £ m	2018 £ m
Turnover	4	3,598	3,568
Cost of sales		(3,413)	(3,329)
Gross profit		185	239
Administrative expenses		(30)	(218)
Other operating income	5	417	1
Other operating expense	5	(233)	(137)
Unrealised (losses)/gains of financial derivatives	6	(179)	75
Operating profit/(loss)	7	160	(40)
Interest receivable and similar income	9	10	7
Interest payable and similar expenses	10	(23)	(20)
Profit/(loss) before taxation		147	(53)
Tax on profit/(loss)	14	(61)	(17)
Profit/(loss) for the financial year		86	(70)

The above results were derived from continuing operations.

The notes on pages 22 to 68 form an integral part of these financial statements.

Npower Limited
Statement of Comprehensive Income for the year ended 31 December 2019

	2019 £ m	2018 £ m
Profit/(loss) for the financial year	86	(70)
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of post employment benefit obligations	(26)	4
Surplus on revaluation of FVOCI financial assets	-	1
	(26)	5
Total comprehensive income/(expense) for the year	60	(65)

The notes on pages 22 to 68 form an integral part of these financial statements.

Npower Limited
Balance Sheet as at 31 December 2019

	Note	2019 £ m	2018 £ m
Fixed assets			
Intangible assets	15	70	297
Tangible assets	16	8	23
Right-of-use assets	17	12	-
		90	320
Current assets			
Stocks	19	2	3
Fair value through other comprehensive income financial assets	21	6	6
Derivative financial assets	25	-	114
Debtors: Amounts falling due after more than one year	14	-	35
Debtors: Amounts falling due within one year	20	1,883	1,836
Cash at bank and in hand		20	-
		1,911	1,994
Derivative financial liabilities	25	(71)	-
Creditors: Amounts falling due within one year	22	(1,521)	(2,119)
Net current assets/(liabilities)		319	(125)
Total assets less current liabilities		409	195
Provisions for liabilities	26	(141)	(14)
Net assets excluding pension asset/(liability)		268	181
Retirement benefit obligations		(27)	-
Net assets		241	181
Capital and reserves			
Called up share capital	28	101	101
Merger reserve		30	30
Fair value through OCI reserve		6	6
Profit and loss account		104	44
Total shareholders' funds		241	181

The financial statements on pages 18 to 68 were approved by the Board on 26 November 2020 and signed on its behalf by:

....

Mr S Stacey

Director

Npower Limited registered company number: 03653277

The notes on pages 22 to 68 form an integral part of these financial statements.

Npower Limited
Statement of Changes in Equity for the year ended 31 December 2019

	Called up share capital £ m	Merger reserve £ m	FVOCI reserve £ m	Profit and loss account £ m	Total Shareholders' funds £ m
At 1 January 2019	101	30	6	44	181
Profit for the financial year	-	-	-	86	86
Other comprehensive expense for the year	-	-	-	(26)	(26)
Total comprehensive income for the year	-	-	-	60	60
At 31 December 2019	101	30	6	104	241

	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 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.

FVOCI reserve represents the accumulated change in fair value of financial assets held at fair value through other comprehensive income, reclassified in 2018 from available for sale reserve as a result of the implementation of IFRS 9.

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

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

The notes on pages 22 to 68 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 and 18A 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 29.

Going concern
The financial statements have been prepared on a going concern basis which assumes that the Company will continue to trade for at least the next 12 months. The basis of this assumption depends on the support of Npower Group Limited. Whilst Npower Group Limited had net current liabilities of £289m as at 31 December 2019, it has and continues to benefit from the support and access to funding from innogy SE. The Directors of Npower Group Limited believe this support will continue to be provided because:

• Npower plays a key role for the future of E.ON UK as its domestic customer base is currently being migrated to E.ON UK and E.ON UK's I&C business is due to be merged onto Npower's systems;

• Innogy SE recognises that the operations of Npower Group Limited's subsidiary companies will be subject to an orderly wind-down, or sale of assets and/or shares to E.ON UK plc over a period expected to take 24 months from February 2020, resulting in some or all of such companies ceasing to operate;

• Cash flow forecasts are produced regularly and submitted to the ultimate parent company as part of the annual three year planning process and these forecasts include assumptions on all expected cash flows in and out of the business including the impacts of COVID-19;

• 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 at least the next 12 months and up to completion of the winding-down of operations; and

• The majority of the expected funding requirement required to the completion of the winding-down has already been drawn down at the time of the approval of these accounts.

2 Accounting policies (continued)

Going concern (continued)
When considering all these factors, the Directors of Npower Group Limited have a high degree of certainty that the support from innogy SE will continue to be provided.

The Company received a letter of support from Npower Group Limited on 26th February 2020 which indicates that it will provide financial support to enable the Company to meet its liabilities as they fall due during the wind-down period. The Company's Directors also have a high degree of certainty that the support from innogy SE, via Npower Group Limited, will continue to be provided for the reasons noted above.

On 18th September, 2019 E.ON SE (E.ON) acquired RWE AG's (RWE) 76.8% majority stake in innogy SE (innogy1) as part of an extensive asset swap transaction. The main elements of this transaction were that E.ON acquired innogy1's Grid & Infrastructure and Retail businesses and in return, RWE has taken on both E.ON and innogy1's renewables businesses. RWE received a 16.67% stake in E.ON. Subsequently E.ON increased its shareholding in innogy1 to c90%, the remaining c10% minority shareholders retained their interests. innogy1 pursued a merger squeeze out process under German law to acquire this remaining minority holding.

On 2nd June 2020, that merger squeeze out process was completed and E.ON acquired the entire minority shareholding to become 100% owner of innogy1. At the same time, by operation of German law, innogy1 was merged into its immediate parent company E.ON Verwaltungs SE (E.ON V). Under this legal process, E.ON V became the legal successor to innogy1 and the assets and liabilities of innogy1 were assumed by E.ON V. On the same date (2nd June 2020), E.ON V changed its name to innogy SE. The new innogy SE (innogy2), although a separate German legal entity, is now legal successor to the letters of financial support in favour of Npower Group Limited from the old innogy SE (innogy1).

On 29th November 2019, it was announced that customer accounts of the npower Retail Group's Home and npower Business segments would be migrated to E.ON UK plc (E.ON UK) systems commencing Q2 2020 with completion scheduled for mid-2021. Terms for the transfer of the related customers supply contracts were formalised in a Sale and Purchase Agreement (SPA) on 11th February 2020. Under the SPA E.ON UK has become the principal employer of the Retail section of innogy pension scheme with the pension obligation being transferred to E.ON UK on 1st April 2020. Under the SPA, ownership of each customer contract will transfer to E.ON Energy Solutions Limited (EESL) upon migration of the related customer account. The npower Retail Group's Business Solutions segment is to merge with E.ON's Industrial and Commercial segment. Npower Business Solutions customers will be moved to the Junifer billing platform and the business will then be sold to E.ON UK plc, this is likely to occur in the first half of 2021.

The Company is a 100% owned subsidiary of the E.ON group and the innogy2 group. innogy2 group had a market capitalisation of €24.8 billion at the 2019 year end (2018: €22.4 billion) and employs around 35,000 employees. innogy2 group supplies over 14 million customers with electricity and over 4 million with gas across Europe, its key markets being in Germany, the Netherlands and the United Kingdom. In the year 2019, the innogy SE group recorded €35.4 billion (2018: €35.2 billion) in revenue and had a profit after tax of approximately €0.7 billion (2018: loss of €0.3 billion). Being a large group, innogy2 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.

Future decisions by E.ON SE could lead to some or all of the companies within the npower Retail group ceasing to trade. The Company's existing Home customers were sold to E.ON UK in February 2020, and these customers will migrate to E.ON UK. The Company will continue to serve npower Business Solutions customers, with all customers within that segment transferred to the Npower Commercial Gas Limited in 2021 prior to selling that company to E.ON UK plc. Given the above position, the financial statements of the Company have been prepared on a going concern basis, and this treatment will be reviewed on an annual basis.

2 Accounting policies (continued)

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 29.

New standards, amendments and IFRS IC interpretations
IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material impact on the company's financial statements - see notes 17 and 23.

There are no other accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that 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 2019. The most important changes are presented below. EU endorsement is still pending in some cases.

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 adopted the new standard. On transition, the modified retrospective method was applied.

Adoption of IFRS 16 from 1 January 2019 resulted 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, do not fall into the scope of IFRS16 and therefore do 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 resulted in no lease reassessments. As the Company entered into new PPA's subsequent to 1 January 2019 under similar terms to the existing arrangements, these PPA's did not constitute a lease when assessed using the IFRS 16 criteria. As such, the effect of IFRS 16 in relation to the PPA's has not result in a material change to the current treatment under IAS 17.

Further disclosure can be found on the adoption of IFRS 16 in note 23.

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).

2 Accounting policies (continued)

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, returns 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's activities are described in detail below. 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: the company supplies electricity, gas and related services to domestic, commercial and industrial customers. Turnover is recognised on the basis of energy supplied during the year, recognised over time per performance obligation fulfilled.

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. This methodology has been applied consistently for a number of years across a large, homogenous customer base and therefore its highly probable that a significant reversal in the cumulative revenue recognised will not occur.

Other turnover comprises additional performance obligations such as metering and energy generation services and will have a proportion of the transaction price allocated if completed as part of an energy supply transaction.

Other turnover can be recognised at point in time, or over time, bring the date of service provision, which is when the customer obtains control of the good and services, and can benefit from them.

Payments to customers for sale purposes leads to the creation of a contract asset, charged to the income statement as a reduction of revenue.

Contract costs which are additionally incurred when obtaining a customer are capitalised and amortised over the same period as the contract term, ensuring a systematic basis consistent with the transfer of goods or services to the customer.

Contract terms are assigned with the earliest date of the contract exit, however, for energy contracts, revenue is only recognised on transfer to the customer.

Receivables are recognised when the goods and services are delivered as this is the point in time that the consideration in unconditional because only the passage of time is required before the payment is due.

In the past the company offered 'assurance-type' warranties to customers on specific energy supply tariffs. Obligations in relation to warranties are recognised as provisions.

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.

Credits arising on derecognition of intragroup loans are recognised as other operating income.

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

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.

Right-of-use assets
The recognition and subsequent measurement of right-of-use assets is disclosed in the Leases accounting policy on page 32.

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
Other property, plant and equipment	5 years
Assets under construction	Not depreciated

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 the higher of its estimated value in use and fair value less costs of disposal. 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 RWE 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.

Leases
The company leases various offices, equipment and vehicles. Rental contracts are typically made for fixed periods between 6 months to 10 years but may have extension options. Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Leased assets may not be used as security for borrowing purposes. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

2 Accounting policies (continued)

Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

• Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
• Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
• Amounts expected to be payable by the company under residual value guarantees;
• The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
• Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. See disclosure within note 23.

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

• The amount of the initial measurement of lease liability;
• Any lease payments made at or before the commencement date less any lease incentives received;
• Any initial direct costs; and
• Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the company.

Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

2 Accounting policies (continued)

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 24.

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.

While the estimates are considered to be appropriate, changes in estimation basis could lead to a change in the level of turnover recorded and consequently on the charge or credit to Profit and Loss Account.

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 20 for the net carrying amount of the receivables and associated impairment provision.

While the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to the Profit and Loss Account.

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:

	2019 £ m	2018 £ m
Sales of goods and services	3,572	3,523
Other turnover	26	45
	3,598	3,568

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

	2019 £ m	2018 £ m
Current contract liabilities relating to energy supply contracts	-	(1)

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.

	2019 £ m	2018 £ m
Revenue recognised that was included in the contract liability balance at the beginning of the period.		
Energy supply contracts	1	3

See note 2 for turnover accounting policy. There were no assets recognised from costs to fulfil a contract.

5 Other operating income/(expense)

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

	2019 £ m	2018 £ m
Intercompany loan waiver	416	-
Other operating income	1	1
	417	1

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

	2019 £ m	2018 £ m
Impairment of domestic assets	(233)	-
Impairment of goodwill	-	(109)
Impairment of investment	-	(28)
	(233)	(137)

Intercompany loan waiver
During 2019, the intermediate parent company, Npower Group Limited, waived in part a loan to the Company, the credit arising on derecognition was £416m, for full disclosure see note 22.

Impairment of domestic right-of-use assets
The decision to migrate the domestic customers from the npower Retail Group to E.ON was accompanied by an announcement to exit specific buildings leased in connection with the domestic retail business, as well as the vehicle fleet used in support of meter readings and smart meter instillations. This indicated the carrying amount of specific right-of-use assets held in connection with the domestic retail business within the Company were in excess of their recoverable amount. An impairment charge of £14m was recognised in the year, further disclosure is made in note 17.

Impairment of domestic property, plant and equipment
The decision to migrate the domestic customers from the npower Retail Group to E.ON indicated the carrying amount of specific items of property, plant and equipment held in connection with the domestic retail business within the Company were in excess of their recoverable amount. An impairment charge of £8m was recognised in the year, reflecting a carrying amount of £16m and a recoverable amount of £8m.

Impairment of domestic computer software
The decision to migrate the domestic customers from npower Retail Group systems to E.ON's own systems indicated the carrying amount of the computer software assets held in connection with the domestic retail business were in excess of their recoverable amount. An impairment charge of £204m was recognised by the company, reflecting a carrying amount of £228m and a recoverable amount of £24m.

Impairment of domestic refurbishment
The decision to migrate the domestic customers from the npower Retail Group to E.ON indicated the carrying amount of the Trigonos (Swindon) campus refresh held in connection with the domestic retail business within the Company was in excess of its recoverable amount. An impairment charge of £7m was recognised in the year, reflecting a carrying amount of £7m and a recoverable amount of £nil.

5 Other operating income/(expense) (continued)

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 cost of disposal 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 8.50 % after tax (2018: 5.50 %).

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 138 and 139 of the innogy SE 2019 Annual Report.

As part of the impairment test, an impairment of £nil (2018: £109 million) was recognised on the goodwill of the Company. This was based on a carrying amount of £115 million and a value in use of £278 million.

Goodwill impairment charged is not especially sensitive to changes in assumptions as the NPV of the business is supported by the profitable B2B business, while the carrying amount has been reduced by the impairment of specific assets identified in relation to the domestic retail business.

Variations in the assumptions resulted in the following increases/(decreases) to the NPV of the business, although none were sufficient to impact the impairment charged:

- discount rate percentage: 1% increase £(32)m/(12)%, 1% decrease £41m/15%;
- growth rate percentage: 1% increase £33m/12%, 1% decrease £(26)m/(9)%; and
- gross profit margin by value: 1% increase £16m/6%, 1% decrease £(16)m/(6)%.

5 Other operating income/(expense) (continued)

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 a charge of £nil (2018: £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.

Other operating income
Included in the current and prior year 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.

6 Unrealised (losses)/gains of financial derivatives

	2019 £ m	2018 £ m
(Loss)/gain on unrealised valuation of commodity derivatives	(179)	75

7 Operating profit/(loss)

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

	2019 £ m	2018 £ m
Impairment loss	233	137
Amortisation expense (included in 'Administrative expenses')	45	36
Depreciation expense (included in 'Administrative expenses')	8	2
Low value/operating lease expense - property	2	2
Short term/operating lease expense - vehicles	1	1
Loss on disposal of property, plant and equipment	1	2

The company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. During 2019, under IFRS 16 lease expenses relating so short term, low value or variable lease payments are not treated as finance leases and instead, they are expensed to the income statement. In 2018 the leases were accounted for under IAS 17 as operating leases and expensed to the income statement.

Full disclosure of the 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 lease costs are then recharged across the npower Retail Group as applicable.

The lease commitments that the Company holds are disclosed in note 23.

Depreciation expense includes £4m (2018: £nil) in relation to right-of-use assets, further disclosure is made in note 17.

Impairment losses are disclosed in note 5.

8 Auditors' remuneration

	2019 £ m	2018 £ m
Audit of the financial statements	0.2	0.1
Other fees to auditors		
All other non-audit services	-	0.0

Fees from auditors are borne by Npower Limited and recharged to other npower Retail Group companies.

9 Interest receivable and similar income

	2019 £ m	2018 £ m
Other finance income	-	1
Pension interest income - return on assets	10	6
	10	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

	2019 £ m	2018 £ m
Interest on bank overdrafts and borrowings	-	1
Interest on obligations under finance leases and hire purchase contracts	1	-
Interest payable to group undertakings	13	13
Pension interest expense - defined benefit obligation	9	6
	23	20

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:

	2019 £ m	2018 £ m
Wages and salaries	70	55
Social security costs	6	5
Other pension costs	1	4
	77	64

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:

	2019 No.	2018 No.
Sales and administrative staff	1,728	1,708

12 Directors' remuneration

Details of the directors' aggregate remuneration for the year ended 31 December 2019 are set out below together with details of the highest paid director. No compensation for loss of office was paid to the directors (2018: £nil).

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

	2019 £m	2018 £m
Aggregate emoluments	2.1	2.9

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

	2019 No.	2018 No.
Received or were entitled to receive shares under long term incentive schemes	-	-
Exercised share options	-	-
Accruing benefits under defined benefit pension scheme	3	3
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 2019 was £164,900 (2018: £167,300).

The total cost of contributions paid into the defined contribution pension scheme for the year ended 31 December 2019 was £6,000 (2018: £5,300).

The directors, including the highest paid director, were not entitled to receive aggregate cash payments during the year (2018: not entitled) under long-term incentive schemes from the Company. None (2018: none) of the directors received or became entitled to receive shares in E.ON SE under long-term incentive schemes in the financial year. No (2018: no) directors, including the highest paid director, exercised share options for shares in E.ON SE in the financial year.

In respect of the highest paid director:

	2019 £	2018 £
Remuneration	396,042	390,734
Benefits under long-term incentive schemes (excluding shares)	127,873	220,000
Defined benefit accrued pension entitlement at the end of the year	69,300	67,100
Defined benefit accrued lump sum at the end of the year	107,900	105,500

During 2019 the acquisition of innogy SE by E.ON SE triggered a change in control clause causing the pay-out of the 2016-2018 LTIP. Further disclosure can be found in note 24.

In the prior year, 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").

As part of the Sales Proceeds Agreement (SPA) the Retail Section of the ESPS was transferred to E.ON on 1 April 2020, as a result the pension scheme will be derecognised at that point.

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 was RWE 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 £2.3 million (2018: £1.8 million) were paid into defined contribution sections of the scheme by the Company.

Defined benefit pension schemes

The 2019 triennial valuation of the Retail Section of the Innogy Group of ESPS was signed on 11 March 2020. The Company and the Trustees agreed a deficit repair plan whereby a payment of £3.4m was made in March 2020 and will be made in each subsequent March until March 2029. In addition, new employer contributions for each of the four benefit sections were agreed and implemented from 1 April 2020, a further increase in employer contributions was agreed to take effect on 1 April 2022. 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:

	2019	2018
	%	%
Discount rate	2.1	2.9
Rate of RPI inflation	2.9	3.2
Rate of CPI inflation	1.9	2.1
Rate of salary increases	2.9	3.2
Rate of increase in pensions in payment		
- Main, 60ths and Executive sections	2.8	3.0
- 2005 section	2.1	2.1
Rate of increase in pension in deferment		
- Main section	2.8	3.2
- 2005 section	2.1	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 62.

As at 31 December 2019, 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 2018 CMI projections with a long-term rate of improvement of 1.25% p.a. for males and females. Illustrative life expectancies are set out in the table below:

13 Pension scheme funding (continued)

	2019	2018
Life expectancy of a male aged 65 (role and salary dependent)	Years	Years
- Current	19.6 - 21.9	20.2 - 22.8
- Future	21.4 - 23.7	22.5 - 24.9
Life expectancy of a female aged 65		
- Current	22.4	24.0
- Future	24.4	26.1
Average duration of liabilities	26.0	25.0

Analysis of assets

The major categories of scheme assets are as follows:

	2019	2018
	£ m	£ m
Equities	56.5	81.1
Government bonds	81.8	101.1
Corporate bonds	51.0	49.0
Hedge fund	86.5	86.6
Other	12.2	17.0
	288.0	334.8

13 Pension scheme funding (continued)

As at 31 December 2019

	Level 1	Level 2	Level 3	Total	
	£ m	£ m	£ m	£ m	%
Equity Instruments					
Global Equities	-	56.5	-	56.5	20
	-	56.5	-	56.5	20
Debt Instruments					
Government	-	81.8	-	81.8	28
Corporate	-	51.0	-	51.0	18
	-	132.8	-	132.8	46
Other					
Hedge funds	-	-	86.5	86.5	30
Liquidity cash funds	-	7.1	-	7.1	2
Net current assets	-	5.1	-	5.1	2
	-	12.2	86.5	98.7	34
Total	-	201.5	86.5	288.0	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

	2019	2018
Scheme liabilities	**£ m**	**£ m**
Opening defined benefit obligation	334.7	380.4
Current service cost	13.1	12.1
Past service cost	5.4	0.8
Interest cost on defined benefit obligation	9.3	6.3
Contributions by scheme participants	3.3	2.8
Transfers into the Scheme	4.7	-
Transfers out to the innogy Section	(2.5)	-
Benefits paid	(22.9)	(1.2)
Change in financial assumptions	61.0	(18.1)
Change in demographic assumptions	(5.5)	(3.2)
Experience gains on scheme liabilities	(0.2)	(45.2)
Actuarial gains due to change in allocation	(85.5)	-
Closing defined benefit obligation	314.9	334.7

13 Pension scheme funding (continued)

	2019	2018
Scheme assets	**£ m**	**£ m**
Opening fair value of assets	334.8	323.6
Interest income on scheme assets	9.6	6.2
Return on scheme assets, excluding interest income	19.8	20.2
Administration expenses	(0.8)	(0.9)
Contributions by employer	21.2	9.1
Contributions by scheme participants	3.3	2.8
Transfers into the Scheme	4.7	-
Transfers out to the innogy Section	(2.5)	-
Benefits paid	(22.9)	(1.2)
Actuarial (losses) due to change in allocation	(79.2)	(25.0)
Fair value at end of year	288.0	334.8

All pension schemes are funded pension plans. The funding level was 91% at 31 December 2019 (2018: 100%).

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.

	2019	
	+1%	**-1%**
Adjustment to discount rate	**£ m**	**£ m**
(Decrease)/Increase - Present value of total obligation	(67.0)	94.0
	+1%	**-1%**
Adjustment to rate of salary growth	**£ m**	**£ m**
Increase/(Decrease) - Present value of total obligation	46.0	(34.0)
	+1 year	**-1 year**
Adjustment to mortality age rating assumption	**£ m**	**£ m**
Increase - Present value of total obligation	7.0	N/a
	+1%	**-1%**
Adjustment to pension increases	**£ m**	**£ m**
Increase/(Decrease) - Present value of total obligation	48.0	(35.0)

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 profit/(loss)

Tax charged in the Profit and Loss Account:

	2019 £ m	2018 £ m
Current taxation		
Group relief payable	25	11
Adjustments in respect of previous years	-	(1)
Total current tax charge	25	10
Deferred taxation		
Origination and reversal of temporary differences	36	7
Total tax charge	61	17

The tax assessed on the loss before taxation is higher than the standard rate of corporation tax in the UK (2018: higher than the standard rate of corporation tax in the UK) of 19% (2018: 19%).

The differences are reconciled below:

	2019 £ m	2018 £ m
Profit/(loss) before taxation	147	(53)
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	28	(10)
Expenses not deductible for tax purposes	4	29
Derecognition of deferred tax asset recognised in prior year	66	-
Difference between current and deferred tax rates	8	(1)
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	34	-
Other tax effects for reconciliation between accounting profit and tax expense (income)	(79)	-
Difference between current and deferred tax rates	-	(1)
Total tax charge	61	17

Tax included in Other Comprehensive Income	2019 £ m	2018 £ m
Profit recorded in Other Comprehensive Income	6	6
Profit recorded in Other Comprehensive Income multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	1	1
Effect of: Deferred tax not recognised	(1)	-
Total tax charge included in Other Comprehensive Income	-	1

14 Tax on profit/(loss) (continued)

In December 2019 there was a general election, as part of the Government's manifesto it was announced that the corporation tax rate would not reduce to 17% from April 2020 and that the rate would remain at 19% for the foreseeable future. At the balance sheet date however, the rate reduction to 17% was still substantively enacted and therefore we have continued to recognise deferred tax at that rate.

At the reporting date, Npower Limited had gross unrecognised temporary differences of £590,270,034 (2018: nil). No deferred tax asset has been recognised in respect of the full amounts as it is not considered probable that there will be future taxable profits available.

Debtors: Amounts falling due after more than one year

Deferred tax assets

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

	2019 £ m	2018 £ m
To be recovered after more than 12 months		
Deferred tax asset	-	35
	-	35

Deferred tax movement during the year:

	At 1 January 2019 £ m	Recognised in Profit and Loss Account £ m	At 31 December 2019 £ m
Accelerated tax depreciation	50	(50)	-
Other items	(15)	15	-
Deferred tax assets	35	(35)	-

Deferred tax movement during the prior 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

15 Intangible assets

	Goodwill	Computer Software	Intangible Assets Under Construction	Total
	£m	£m	£m	£m
Cost				
At 1 January 2019	156	407	33	596
Additions	-	7	15	22
Transfers	-	9	(9)	-
At 31 December 2019	156	423	39	618
Accumulated amortisation				
At 1 January 2019	109	190	-	299
Amortisation charge	-	45	-	45
Impairment charge	-	188	16	204
At 31 December 2019	109	423	16	548
Carrying amount				
At 31 December 2019	47	-	23	70
At 31 December 2018	47	217	33	297

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.

The company performs an annual assessment on separately identifiable non-current assets as to whether there is any indication of impairment, in addition to the cash generating unit assessment performed annually on goodwill and any intangibles with an indefinite useful life.

During the financial year an impairment charge of £204 million was recognised (2018: £109 million) and 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 2019	4	14	10	6	34
Additions	-	-	-	-	-
Transfers	-	8	(8)	-	-
Disposals	-	(2)	(1)	(1)	(4)
At 31 December 2019	4	20	1	5	30
Accumulated depreciation					
At 1 January 2019	-	9	-	2	11
Charge for the year	-	4	-	-	4
Impairment	-	7	1	-	8
Disposals	-	(1)	-	-	(1)
At 31 December 2019	-	19	1	2	22
Carrying amount					
At 31 December 2019	4	1	-	3	8
At 31 December 2018	4	5	10	4	23

The decision to migrate the domestic customers from the npower Retail Group to E.ON indicated the carrying amount of specific items of property, plant and equipment held in connection with the domestic retail business within the Company were in excess of their recoverable amount. An impairment charge of £8m was recognised in the year. Further disclosure has been made in note 5.

17 Right-of-use assets

	Right of Use Buildings	Total
	£m	£m
Cost		
At 1 January 2019	-	-
Additions	30	30
At 31 December 2019	30	30
Accumulated depreciation		
At 1 January 2019	-	-
Charge for the year	4	4
Impairment	14	14
At 31 December 2019	18	18
Carrying amount		
At 31 December 2019	12	12
At 31 December 2018	-	-

Right of use buildings of £30m were recognised during the year due to the implementation of IFRS 16. The corresponding liability was also recognised, further disclosure can be seen in note 23.

The decision to migrate the domestic customers from the npower Retail Group to E.ON indicated the carrying amount of specific right-of-use assets held in connection with the domestic retail business within the Company were in excess of their recoverable amount. An impairment charge of £14m was recognised in the year, reflecting a carrying amount of £26m and a recoverable amount of £12m.

18 Investments

The carrying amount of Npower Limited investments in subsidiary undertakings was £nil in the year ended 31 December 2019 (2018: £nil).

During 2018 an impairment charge of £28 million was recognised against the investment in Npower Gas Limited (2017: £5 million impairment charge against RUMM Limited).

18 Investments (continued)

Details of the subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Country of incorporation	Proportion of ownership interest through ordinary shares and voting rights held 2019	2018
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	Dissolved	England and Wales	0%	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.

RUMM Limited was liquidated on 26th May 2019.

19 Stocks

	2019 £ m	2018 £ m
Raw materials and consumables	2	3

20 Debtors: Amounts falling due within one year

	2019 £ m	2018 £ m
Trade debtors	644	657
Amounts owed by group undertakings	750	710
Other debtors	-	1
Loans owed by group undertakings	56	-
Accrued income	366	380
Prepayments	67	88
Total debtors	1,883	1,836

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

Loans owed by group undertakings are unsecured and bore interest at a rate of 0.572%. The loans can be repaid early subject to the consent of both parties.

Trade debtors are stated after provisions for impairment of £34 million (2018: £25 million).

21 Fair value through OCI financial assets

	2019 £ m	2018 £ m
Telecom Plus plc shares	6	6

The Company holds 426,989 shares in Telecom Plus plc (2018: 426,989 shares). The investment is recorded at fair value with gains/(losses) recognised through other comprehensive income, as at 31 December 2019 this was £6,413,375 (2018: £6,114,482), based on a closing mid market price of £15.02 per ordinary share (2018: £14.32 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.

22 Creditors: Amounts falling due within one year

	2019 £ m	2018 £ m
Bank overdrafts	-	1
Loans owed to group undertakings	-	487
Customer payments in advance	22	43
Trade creditors	83	96
Amounts owed to group undertakings	577	657
Other payables	-	3
Social security and other taxes	103	74
Accrued expenses	710	758
Finance lease liabilities	26	-
	1,521	2,119

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment and include £36 million of group relief payable (2018: £20 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.

During the year the Company's immediate parent Npower Group Limited settled in full a loan to the value of £850m with its immediate parent company, innogy International Participations N.V., following an issue of an equivalent amount of ordinary shares at par value to innogy International Participations N.V. Subsequently Npower Group Limited signed deeds to waive outstanding loans to its subsidiaries within the npower Retail Group, including the Company. The credit arising on derecognition of the loan to Npower Group Limited was £416m.

The loan facility is unsecured and at 31 December 2019 bore interest at a rate of 1.125% (2018: 1.067%). Loans owed by group undertakings also include accrued interest payable on the loan agreement. Further disclosure on the loan waiver exercise can be found in note 5.

Finance lease liabilities relates to the implementation of IFRS 16, further disclosure is made in note 23.

23 Leases

The company has lease contracts for offices used in operations, the amounts recognised in the financial statements in relation to these leases is as follows.

(i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	Note	31 December 2019	1 January 2019
Right-of-use assets		**£m**	**£m**
Buildings	17	12	30
Lease liabilities			
Current	22	5	5
Non-current	22	21	25
		26	30

In the previous year, only finance lease assets and finance lease liabilities under IAS 17 Leases would have been recognised in the balance sheet. Npower Limited had no finance leases to disclose under IAS 17 during 2018.

The company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application, therefore there has been no restatement to the 2018 figures in respect of IFRS 16.

(ii) Amounts recognised in the income statement

The income statement shows the following amounts in relation to leases:

	Note	2019	2018
Depreciation charge of right-of-use assets			
Buildings	7	4	-
Impairment charge of right-of-use assets			
Buildings	5	14	-
Expenses in relation to finance lease liability			
Interest expense	10	5	-
Expenses relating to short term leases	7	1	-
Other expenses relating to low value assets or variable lease payments	7	2	-
		26	-

During 2018, £3m was recognised as operating lease expenditure in the income statement under IAS 17 Leases, as disclosed in note 7.

23 Leases (continued)

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

	2019	2018
	£m	£m
Within one year	5	5
In two to five years	19	18
In over five years	7	10
Total gross payments	31	33
Impact of finance expenses	(5)	
Carrying amount of liability	26	

The comparative future minimum lease payments presented are based on IAS 17 while the current year are based on IFRS 16.

Finance expenses represents the discounting to present value of the future cashflows. This has been done at the incremental borrowing rate of 2.49% as there is no interest rate implicit in the lease agreements.

The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The incremental borrowing rate provided by innogy SE is based on intercompany financing yields, consisting of two components, the swap rate of the relevant currency and the risk adjusted credit spread of the npower Retail Group.

24 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.

24 Share-based payments (continued)

	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. 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.		

24 Share-based payments (continued)

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.

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

24 Share-based payments (continued)

Change (granted/expired)	-	-	(6,169)
Paid out	-	-	-
Outstanding 31 December 2018/ 1 January 2019	**22,201**	**72,812**	**59,585**
Payable at 31 December 2018	-	-	-
Granted	-	-	-
Change (granted/expired)	-	-	-
Paid out	(22,201)	(72,812)	(59,585)
Outstanding 31 December 2019	-	-	-

The LTIP 2016-2018 paid out in full in September 2019 for all innogy grants. The EON transaction triggered 'Change of Control' in the plan rules, which resulted in automatic early pay-out for all participants.

During the period under review, expenses for share-based payments totalled £nil (2018: £2m).

As of the balance-sheet date, provisions for cash-settled share-based payments amounted to £nil (2018: £3m).

The 2019 LTIP is a cash scheme with a vesting period of two years. Payment will be in January 2021. As it is not a share-based payment further disclosure is made in note 26.

25 Derivative financial assets/(liabilities)

At 31 December 2019, derivative financial assets/(liabilities) outstanding related to power trades and swaps. The derivative financial assets mature over the period 2020 to 2023.

Embedded derivatives relates to an embedded interest rate swap maturing in 2022 in fulfilment of the Smart Meter rollout.

	2019 £ m	2018 £ m
Commodity derivatives	(66)	114
Embedded derivatives	(5)	-
	(71)	114

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

The Company has entered into a contract with a meter asset provider to support the rollout of second generation smart meters. The contract contains an embedded interest rate swap which has been disclosed as a FVTPL financial liability under IFRS 9. The charge through the Profit and Loss account in relation to the unrealised value of the swap for 2019 was £5m (2018: £nil).

25 Derivative financial assets/(liabilities) (continued)

Financial instruments by category

2019 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
Available for sale financial assets	-	6	-	6
Trade & other receivables excluding prepayments	1,450	-	-	1,450
Total	1,450	6	-	1,456

2019 Liabilities as per balance sheet	Liabilities at fair value through profit and loss £m	Other financial liabilities at amortised cost £ m	Total £ m
Derivative financial instruments	5	-	5
Derivative commodity instruments	66	-	66
Trade and other payables excluding non-financial liabilities	-	1,499	1,499
Total	71	1,499	1,570

2018 Assets as per balance sheet	Loans & receivables £ 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

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 21.

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

25 Derivative financial assets/(liabilities) (continued)

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 2019 £ m	Level 2 2019 £ m	Level 3 2019 £ m	Total £ m
Embedded derivative	-	(5)	-	(5)
Commodity derivatives	-	(66)	-	(66)
Total	-	(71)	-	(71)

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

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

	Liabilities at fair value through profit and loss 2019 £ m	Assets at fair value through profit and loss 2018 £ m
Due within one year	(43)	70
Due in more than one year and less than two years	(24)	39
Due in more than two years and less than five years	(4)	5
Total	(71)	114

25 Derivative financial assets/(liabilities) (continued)

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, therefore the exposure to credit risk is considered small.

None of the derivative financial assets are past due or impaired as at 31 December 2019.

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.

25 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 2019	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	65	(65)	-
Total	65	(65)	-

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

(b) Financial liabilities

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

As at 31 December 2019	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	(131)	65	(66)
Total	(131)	65	(66)

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	-

26 Provisions for liabilities

	Liabilities and claims £ m	Restructuring £ m	Other provisions £ m	Total £ m
At 1 January 2019	(4)	(7)	(3)	(14)
Additional provisions	(12)	(138)	(2)	(152)
Provisions used	3	19	3	25
At 31 December 2019	(13)	(126)	(2)	(141)

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 was announced publicly in November 2019.

Other provisions include liabilities held by Npower Limited with regard to long term incentive schemes. The 2016-2018 SPP provision of £3m was settled in full during the year.

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

27 Contingent liabilities

In the normal course of business the Company has provided parent company guarantees on behalf of its subsidiaries. As at 31 December 2019 the total value of these guarantees amounted to £6 million (2018: £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.

28 Called up share capital

Allotted, called up and fully paid shares

		2019		2018
	No.	£	No.	£
Ordinary shares of £1 each	101,000,001	101,000,001	101,000,001	101,000,001

29 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 E.ON SE, a company incorporated in Germany, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of E.ON SE consolidated financial statements can be obtained from E.ON SE, Brüsseler Platz 1, 45131 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.

30 Non adjusting events after the financial period

All npower Business Solutions customers will be transferred into Npower Commercial Gas Limited by quarter 2 2021, at which point that company will be sold to E.ON UK plc.

During 2020 the Company has experienced negative impacts of the COVID-19 pandemic. The Company implemented crisis management plans which allowed the Company to maintain key functions whilst operating within the restrictions put in place by the Government. Despite the impact of COVID-19, the directors believe that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements.

This has been discussed further within the Basis of preparation section of the Accounting Policies note.