Registration number: 03653277

Npower Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2017

Npower Limited
Contents

	Page(s)
Strategic Report for the year ended 31 December 2017	1 - 6
Directors' Report for the year ended 31 December 2017	7 - 11
Independent Auditors' Report to the members of Npower Limited	12 - 14
Profit and Loss Account for the year ended 31 December 2017	15
Statement of Comprehensive Income for the year ended 31 December 2017	16
Balance Sheet as at 31 December 2017	17
Statement of Changes in Equity for the year ended 31 December 2017	18
Notes to the Financial Statements for the year ended 31 December 2017	19 - 54

Npower Limited
Strategic Report for the year ended 31 December 2017

The directors present their Strategic Report on Npower Limited ("the Company") for the year ended 31 December 2017.

Business review and future developments
The Company forms part of the Npower Retail Group which consists of 6 main trading entities and 5 other trading entities. The main trading entities operate in varying business areas, namely:

- Home (formerly Domestic) - residential customers
- npower Business - small and medium enterprise customers
- npower Business Solutions - industrial and commercial customers

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

	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			
Npower Direct Limited		X		
Npower Commercial Gas Limited			X	
Plus Shipping Services Limited	X			
Npower Business and Social Housing Limited				X
Innogy Solutions Ireland Limited			X	
RUMM Limited			X	
PS Energy UK Limited	X			

The underlying operating loss for this group of companies was £147 million in 2017 (2016: loss of £147 million).

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

General
The recovery plan, which started in 2015 has continued to progress well through its second full year. Further improvements to operational processes and lower operational costs set out in the plan have been realised in 2017. The 'return to sustainability' programme succeeds the recovery plan and seeks to further address the business' operational efficiency and cost base for the longer term.

Despite the progress against the recovery plan, the Npower Group experienced another challenging year with increased competition across the market segments alongside higher customer engagement, with customers switching to lower priced products and more efficiently managing their consumption.

The parent company of the Npower Group, innogy SE, announced on 8 November 2017 that it plans to merge the Npower Group with SSE's household energy and energy services business in Great Britain to form a major, independent British retail energy company. The new company is planned to have a premium listing on the London Stock Exchange and innogy SE will hold a minority stake of 34.4%, with SSE's shareholders (not SSE itself) holding the remaining 65.6% stake.

The new business will serve around 11.5 million customer accounts and employ around 15,000 people across Great Britain. Before the new company can operate it is necessary to obtain Competition and Markets Authority and shareholder approval for the merger. The exact timing of closing will depend upon when all necessary closing conditions are met.

If the relevant approvals are achieved, the new company would effectively become the second largest energy supplier in the market. It would be positioned to achieve economies of scale, provide enhanced customer experience and product offerings and to compete on a sustainable basis for the benefit of customers, staff and shareholders.

During the year the Group revised its financing arrangements. Cash surpluses and deficits in each Group company are now swept on a daily basis and recognised as loans owed to/by group undertakings. Interest is calculated on a daily basis and interest rates reflect the overall cost of borrowing or deposit rates and are updated where required.

Further details of the performance in 2017, including progress against the recovery plan, and the outlook for 2018 are included in the segmental reviews below.

Home (formerly Domestic)
Npower Home financial results were a reported loss for 2017 albeit better than the reported loss in 2016. Throughout 2017 we have continued to deliver on the recovery plan and had it not been for external pressure on pricing, we would have delivered a profit in 2017.

External pressures in Q1 2017 impacted the pricing position of our standard customer base coupled with the implementation of the prepayment meter cap in April 2017 as a result of the Competition and Markets Authority ("CMA") remedies, both of which significantly reduced our margins. In addition, intense competition in the fixed product market continued to put our margins under pressure.

A record breaking 27 new entrants entered the market during 2017, with 84 companies competing in the residential market by year end. In total, nearly 9 million customers switched supplier in 2017 (18% of the market). Despite Npower suffering high Q1 2017 customer losses following first mover price rise announcements, customer numbers fell by only 175,000 in the year to 4.5m. This was relatively better than some of our big 6 competitors.

The trend towards fixed price products or non standard products continues. We have seen a 7% shift to non standard products from 46% at year end 2016 to 53% at the 2017 year end.

Encouragingly however, the investment in the recovery plan focusing on operational process efficiency and customer service improvement has delivered real benefit. This is not only financially, in terms of reducing operating costs, but more importantly in improving our service key performance indicators, significantly reducing complaints relative to our competitors and improving our customer satisfaction ratings.

This improvement is reflected in a customer satisfaction rating of 72% at year end (2016: 69%). Whilst total volume of complaints showed a slight increase in 2017 compared to 2016 this was consistent across the whole energy sector. Notably, Npower were 2nd out of the big 6 in the final half of 2017 on number of complaints received per 100k customers as reported by Ofgem.

As a result of further focus and investment in our digital platforms, at the year end, 6 out of 10 Npower customers were registered for online digital services. This has enabled call reductions and made it easier for our customers to transact with us. We remain committed to further invest in this channel as well as exploring new routes to market via the successful launch of our Powershop brand in 2017. In addition we launched our partnership with Allianz so we can offer boiler services to our customers.

Looking ahead, the competitive, political and regulatory environment will remain extremely challenging. The prepayment cap is currently in effect, the safeguard tariff is under Ofgem's review and the government is committed to introducing a wider standard variable rate cap as early as winter 2018. To address the inevitable further decline in margin, we have embarked on a thorough review of the way we do business in the form of the 'return to sustainability' programme to further address the cost base for the longer term.

Npower remain committed to cost reduction in the face of margin pressures, continued service improvement and providing innovative product offerings to enhance customer experience and enhance customer satisfaction.

npower Business

Competition has remained intense during 2017 and our competitors continue to pursue aggressive acquisition policies aided by brokers being highly active in encouraging customers to switch following the Ofgem cessation of auto-rollover practices. Customers are much more engaged and are switching more or negotiating harder with their current supplier at renewal. As a result, both acquisition and renewal margins were lower than in 2016.

The customer portfolio reduced by 8%, due to a combination of these market changes and competitor pricing and the transfer of higher consuming meters to npower Business Solutions necessitated by regulatory requirements for half hourly settlement. However, the programme of work in the recovery plan has focused on improving service and reducing losses with the result that retention rates remain strong compared to 2016.

The increasingly competitive market environment, coupled with the transfer to npower Business Solutions of the higher consuming meters, has resulted in lower absolute profit margins year on year. Equally, the investment in re-platforming the core operating systems to SAP increased our costs albeit fully in line with our plans. The new platform will improve operational efficiency, customer processes, debt management and overall customer experience. Excluding these investments costs, our underlying operating costs reduced as a result of the recovery plan with activity becoming increasingly efficient. Nevertheless, these factors have resulted in another year of operating losses in 2017.

Looking forward, npower Business will become integrated with npower Home, which will reduce operating costs further. As part of this integration, customers will be migrated on to the npower Home billing platform and as such the npower Business customers will (where necessary) move to be on a common legal entity upon contract renewal. With this integration, coupled with the improvements we are making to our processes, product offerings and customer experience, we remain confident that we can return to a positive financial position in the years ahead.

npower Business Solutions
2017 has seen a further tightening of margins in npower Business Solutions core markets, with a growing number of market entrants and increasing levels of engagement from the largest customers. The segment had a significant success in the year, securing funding for a project to replace IT systems to achieve significant operating efficiencies.

Power supply volumes have declined 5% in the year against a backdrop of intense competition with 9 new suppliers entering the power market to give a total of 67 active participants. npower Business Solutions maintained its number 2 position in the market by volume (and number 1 by meterbase) supplying 27.6 GWh, being 15.2% of market volume.

In gas npower Business Solutions is the 11th largest supplier in the market by volume share. There are now 62 active suppliers and prices have been extremely competitive in the year. Gas volumes during 2017 are down on the prior year driven by competition and a number of historic gas focused contracts coming to an end.

2017 saw increases in revenues from half-hourly metering services. This followed an industry change (P272) which mandated larger non-half-hourly meters to be settled half-hourly.

npower Business Solutions continues to be the 3rd largest Power Purchase Agreement offtaker by volume, with 12% market share. This is despite there being around 40 offtakers now active in the UK market.

Despite the insolvency of one large customer during the year, the industry leading debt management strategies of npower Business Solutions were able to protect the total position, and debt as a proportion of turnover for 2017 remains in line with historic actuals.

2017 saw the first Demand Side Response sale for npower Business Solutions. This product will be a key proposition and value stream for in the coming years, enabling customers to access an additional value stream from National Grid in return for helping to balance the grid at times of system stress. This external sale was in addition to Npower using the service for its own sites successfully.

Position of the business

The Company's loss for the financial year ended 31 December 2017 was £31 million (2016 restated: profit of £4 million). The net assets of the Company at 31 December 2017 were £246 million (2016 as restated: £277 million).

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

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

The key business risks affecting the Retail Group are the retention rates of existing customers and the proportion of its market share. The level of volatility in electricity wholesale prices and the overhanging threat of a Standard Variable Tariff price cap through intervention by the UK government are the main uncertainties faced. Furthermore, the Company has a number of operational risks as part of its end-to-end processes. Detailed discussions of these risks and opportunities, in the context of the innogy SE Group as a whole are provided on pages 98 through 106 of the innogy SE 2017 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 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 21 June 2018 and signed on its behalf by:

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Mr P Sharman
Director

Npower Limited
Directors' Report for the year ended 31 December 2017

The directors present their report on the Company and the audited financial statements for the year ended 31 December 2017.

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 (2016: £nil).

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

Mr C Pilgrim

Mrs J Eaton

Mr J Stamp (resigned 31 March 2017)

Mr J Scagell

Mr S Stacey

Mr P Sharman

Mr D Titterton (appointed 1 January 2017)

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

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

Going concern
The financial statements have been prepared on a going concern basis which assumes that the Company will continue to trade. The basis of this assumption depends on the support of Npower Group Limited. Npower Group Limited has indicated that it intends to provide funds as are necessary for the Company to trade for the foreseeable future.

As mentioned in the long term viability statement on page 8, the proposed merger of npower and SSE's household energy and energy services businesses would create an independent stock market-listed company. The directors are of the opinion that the new company will be structured to enable an investment grade credit rating, able to access external sources of finance and with sufficient liquidity to meet its operating needs.

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

Long term viability statement

The Company is a 100% owned subsidiary of the innogy SE group. The innogy SE group is majority owned by the RWE group following a successful IPO in 2016. innogy SE group had a market capitalisation of €18.2 billion (£15.9 billion) at 2017 year end and employs over 42,000 employees. innogy SE group supplies approximately 16 million customers with electricity and around 7 million with gas in eleven European countries, its key markets being in Germany, the Netherlands and the United Kingdom. In the year 2017, the innogy SE group recorded €43.1 billion (£37.7 billion) in revenue, and had an income after tax of approximately €1.1 billion (£1 billion). Being a large group, innogy SE manages its financial resources with a Group Treasury function. This function allocates financial resources across the Group to meet all financial obligations in a timely fashion.

In November 2017, innogy SE announced the plan to create a major British energy company by bringing together npower with SSE's household energy and energy services business in Great Britain. The proposed merger would create an independent, stock market-listed company controlled by neither SSE nor innogy SE but with innogy SE holding a minority stake. The new company would be a home energy solutions and services company serving 11.5 million customer accounts and employing around 15,000 people across Great Britain. The directors believe that the new company will be structured to enable an investment grade credit rating, able to access external sources of finance, with sufficient liquidity to meet its operating needs as a dedicated retail business, able to respond well to the changing nature of the energy supply and related services market in Great Britain. The merger is contingent on obtaining the necessary approvals from the shareholders of SSE in July 2018 and the Competition and Markets Authority, a decision on this is likely in the last quarter of 2018 or the first quarter of 2019.

Whilst the Company remains part of the innogy SE group of companies it is funded by its parent on an ongoing basis through a cash management agreement providing access to multi-million pound funding on a daily basis as required to meet its daily working capital requirements.

Employees

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

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

The ongoing changes within the Npower Retail Group mean that effective communication with staff is vital. Corporate publications and other media, including distribution of key development messages and team briefings, are used to promote wide understanding of policies and strategy. We also utilise the latest technology to aid rapid communication with staff through a range of media.

It is the 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 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 Group is committed to equal opportunity and diversity because of a sense of social responsibility and also because it makes sound business sense to tap into the wide-ranging knowledge and experience of individuals in all sectors of society. Through its commitment to valuing the talents of its employees, the Group aims to ensure that it is able to compete in attracting and retaining high calibre employees with wide-ranging experience and is therefore able to respond positively and flexibly to change. Decisions to appoint, reward, train, develop and promote are taken based on skills and abilities, or demonstrated potential, merit and the requirements of the job. Employment decisions affecting both job applicants and employees with disabilities 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 Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

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

Employee share plans
The Retail Group was part of a savings related share option plan for the benefit of employees in the UK. Npower Limited was responsible for the operation of the 2013 tranche. The Retail Group did not operate a new tranche of the scheme subsequently. The 2013 scheme matured on 1 September 2016 and the last date of exercise was 28 February 2017.

Financial risk management

Capital management
The Company's objectives, policies and processes for managing capital are consistent with those of the innogy SE Group. Detailed discussions of these, in the context of the innogy SE Group as a whole, are provided on page 130 of the innogy SE 2017 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.

Financial risk management (continued)

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

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

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

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

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

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

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

The directors are 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.

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.

Statement of disclosure of information to the auditors

In the case of each director in office at the date the Directors' Report is approved:

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

Approved by the Board on 21 June 2018 and signed on its behalf by:

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Mr P Sharman
Director

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 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2017; the Profit and Loss Account, the Statement of Comprehensive Income, 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 when:

- 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 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Other required reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

Date: 27 June 2018

Npower Limited
Profit and Loss Account for the year ended 31 December 2017

	Note	2017 £ m	(As restated) 2016 £ m
Turnover	5	3,441	3,423
Cost of sales		(3,174)	(3,160)
Gross profit		267	263
Administrative expenses		(274)	(314)
Other operating income	6	2	2
Unrealised gains of financial derivatives	7	11	90
Operating profit	8	6	41
Impairment of investments	18	(5)	-
Interest receivable and similar income	10	-	11
Interest payable and similar expenses	11	(31)	(40)
(Loss)/profit before taxation		(30)	12
Tax on (loss)/profit	15	(1)	(8)
(Loss)/profit for the financial year		(31)	4

The above results were derived from continuing operations.

The notes on pages 19 to 54 form an integral part of these financial statements.

Npower Limited
Statement of Comprehensive Income for the year ended 31 December 2017

	2017 £ m	(As restated) 2016 £ m
(Loss)/profit for the financial year	(31)	4
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of post employment benefit obligations	-	(1)
Total comprehensive expense for the year	(31)	3

The notes on pages 19 to 54 form an integral part of these financial statements.

Npower Limited
Balance Sheet as at 31 December 2017

	Note	2017 £ m	(As restated) 2016 £ m
Fixed assets			
Intangible assets	16	395	417
Tangible assets	17	19	18
Investments	18	28	33
		442	468
Current assets			
Stocks	19	2	1
Debtors: Amounts falling due within one year	20	2,023	1,882
Debtors: Amounts falling due after more than one year	15	43	34
Available for sale financial assets	21	5	5
Derivative financial assets	25	38	28
Cash at bank and in hand		-	44
		2,111	1,994
Creditors: Amounts falling due within one year	22	(2,293)	(2,166)
Net current liabilities		(182)	(172)
Total assets less current liabilities		260	296
Provisions for liabilities	26	(14)	(19)
Net assets		246	277
Capital and reserves			
Called up share capital	28	101	101
Merger reserve		30	30
Available for sale reserve		5	5
Profit and loss account		110	141
Total shareholders' funds		246	277

The financial statements on pages 15 to 54 were approved by the Board on 21 June 2018 and signed on its behalf by:

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Mr P Sharman

Director

Npower Limited registered company number: 03653277

The notes on pages 19 to 54 form an integral part of these financial statements.

Npower Limited
Statement of Changes in Equity for the year ended 31 December 2017

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

	Called up share capital £ m	Merger reserve £ m	Available for sale reserve £ m	Profit and loss account £ m	Total Shareholders' funds £ m
At 1 January 2016 (as restated)	1	30	5	138	174
Profit for the financial year	-	-	-	4	4
Other comprehensive expense for the year	-	-	-	(1)	(1)
Total comprehensive expense for the year	-	-	-	3	3
New share capital subscribed	100	-	-	-	100
At 31 December 2016 (as restated)	101	30	5	141	277

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

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

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

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

Loss for the financial year includes amortisation of intangible assets (note 16).

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)

- IFRS 7 (Financial Instruments: Disclosures)

- Paragraph 38 of IAS 1 (Presentation of Financial Statements) to present comparative information in respect of:

  (i) paragraph 79(a)(iv) of IAS 1 (Presentation of Financial Statements)
  (ii) paragraph 73(e) of IAS 16 (Property, Plant and Equipment)
  (iii) paragraph 118(e) of (IAS 38 Intangible Assets)

- The following paragraphs of IAS 1 (Presentation of Financial Statements):

  (i) 10(d)
  (ii) 10(f)
  (iii) 16
  (iv) 38A
  (v) 38B-D
  (vi) 40A-D
  (vii) 111
  (viii) 134-136

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)
- IAS 7 (Statement of Cash Flows)

- Paragraphs 30 and 31 of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)

- Paragraph 17 of IAS 24 (Related Party Disclosures)

- The requirements in IAS 24 (Related Party Disclosures) to disclose related party transactions entered into between two or more members of a group

- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 (Impairment of Assets).

Where required, equivalent disclosures are given in the group financial statements of 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. The basis of this assumption depends on the support of Npower Group Limited. Npower Group Limited has indicated that it intends to provide funds as are necessary for the Company to trade for the foreseeable future.

Whilst the company has net current liabilities, as mentioned in the Directors Report and the Long term viability statement it is proposed that npower and SSE's household energy and energy services businesses will merge to create an independent stock market-listed company. The directors are of the opinion that the new company will be structured to enable an investment grade credit rating, with access to external sources of financing and sufficient liquidity to meet its operating needs.

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
No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2017 have had a material impact on the company.

Prior period adjustments
A prior period adjustment is recognised if there is a change in accounting policy or a fundamental material error in the financial statements. The comparative results are restated to correct the error as if it had not occurred as appropriate.

2 Accounting policies (continued)

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Group and the turnover can be measured reliably. Turnover includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates, VAT and other sales-related taxes.

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

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

Interest

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

Other operating income

Credit balances relating to ex npower Business Solutions customers who are no longer supplied by the Company and with whom we have lost contact (known as final credits) are held as trade liabilities for a period of at least 12 months. During this period rigorous procedures to trace the lost customer are undertaken. If these procedures prove unsuccessful, the balance is released to the Profit and Loss Account with a percentage being retained to cover any future claims. The procedure is consistent across the Retail Group although the percentage varies per business area and is reviewed annually.

Prior to April 2014 a similar policy applied to domestic customers as for npower Business Solutions. With effect from April 2014, the Company no longer releases eligible customer credits to the Profit and Loss Account for domestic customers. Instead, once eligible customer credits exceed 12 months old and therefore reach the age in which they would be released according the policy above, they are instead transferred to other liabilities to be utilised in future helping vulnerable customers through the npower Energy Fund and also customers affected by cancer through a Macmillan partnership.

Taxation

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

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

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

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

2 Accounting policies (continued)

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.

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 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.

Depreciation

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

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

Investments

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

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

2 Accounting policies (continued)

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

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

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

- Future market conditions and prices are based on detailed analysis and predictions prepared by innogy economists based on the specific circumstances of the UK retail energy market

- Cash flow projections are based on management's approved long term business plan which incorporate the predictions of future market conditions above

- The cash flows obtained are discounted at a rate estimated to be appropriate for the retail energy business in the UK

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

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

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

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

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 and is included in finance costs.

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

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the 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.

Defined benefit pension obligation
The defined benefit pension scheme is accounted for as a defined contribution scheme by the Company in accordance with IAS 19R (Employee Benefits). The Company, along with other employers within the group, participates in the scheme and is unable to identify its share of the underlying assets and liabilities on a reasonable and consistent basis. Further details are provided in note 13.

2 Accounting policies (continued)

Operating leases

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

Share based payments

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

In 2016, BEAT was replaced by the Strategic Performance Plan ("SPP") scheme. In this scheme certain employees of the Company are conditionally awarded entitlement to performance shares. Details regarding both BEAT and 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 IAS39 all unrealised trading positions at balance sheet date are recognised at fair value and held on balance sheet as a liability or asset with year on year movement through the Profit and Loss Account. 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 IAS 39.

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

Valuation of debtors – estimation uncertainty
Debtors represent the most significant exposure to credit risk and are stated after an allowance for impairment. The Company's exposure to credit risk, and therefore the basis of determining the provisions for bad and doubtful debts, is based on segmenting the receivables by type of debtor, aging and history of default. 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 third 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 recoverable amount was higher than the carrying amount of the cash generating unit. These surpluses react especially sensitively to changes in the discount rate, the growth rate and the operating result after taxes in terminal value.

Recognition of deferred tax assets
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.

4 Prior year adjustment

In prior years, revenue and cost belonging to the Company has been recognised in other Npower Group companies in error. The summary below shows the adjustments made to the comparatives for the errors through financials years 2012 to 2016. It is impracticable to adjust for any errors prior to 2012 as we are not able to accurately quantify those errors.

	2016 £ m
Financial statement line item	
Turnover increase	58
Cost of sales (increase)	(50)
2016 opening profit and loss account reserve increase	81
2017 opening profit and loss account reserve increase	89
Amounts owed by group undertakings increase	89

5 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:

	2017 £ m	(As restated) 2016 £ m
Sales of goods and services	3,393	3,339
Other turnover	48	84
	3,441	3,423

6 Other operating income

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

	2017 £ m	2016 £ m
Final customer credits	2	2

Included in the final customer credits are credit balances relating to npower business solutions customers who are no longer supplied by the Company. Despite carrying out rigorous procedures over 12 months the Company has been unable to trace these customers and consequently these amounts have been written back to the Profit and Loss Account in accordance with the accounting policy note explained in note 2.

7 Unrealised gains of financial derivatives

	2017 £ m	2016 £ m
Gain on unrealised valuation of commodity derivatives	11	90

8 Operating profit

Operating profit is arrived at after charging:

	2017 £ m	2016 £ m
Depreciation expense (included in 'Administrative expenses')	3	4
Amortisation expense (included in 'Administrative expenses')	60	52
Operating lease expense - property	2	3
Operating lease expense - other	-	1
Loss on disposal of property, plant and equipment	1	1

9 Auditors' remuneration

	2017 £ m	2016 £ m
Audit of the financial statements	0.3	0.3
Other fees to auditors		
All other non-audit services	0.1	0.1

10 Interest receivable and similar income

	2017 £ m	2016 £ m
Interest receivable from group undertakings	-	11

11 Interest payable and similar expenses

	2017 £ m	2016 £ m
Interest on bank overdrafts and borrowings	-	3
Other finance costs	5	2
Interest payable to group undertakings	26	35
	31	40

12 Staff costs

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

	2017 £ m	2016 £ m
Wages and salaries	58	70
Social security costs	6	7
Other pension costs	32	26
	96	103

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:

	2017 No.	2016 No.
Sales and administrative staff	1,839	2,371

13 Directors' remuneration

Details of the directors' aggregate remuneration for the year ended 31 December 2017 are set out below together with details of the highest paid director. In addition, compensation for loss of office of £0.3m was paid to the directors (2016: £nil).

	2017 £m	2016 £m
Aggregate emoluments	1.8	1.9

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

	2017 No.	2016 No.
Received or were entitled to receive shares under long term incentive schemes	-	-
Exercised share options	-	-
Accruing benefits under defined benefit pension scheme	4	3
Accruing benefits under defined contribution pension scheme	3	4

The accrued pension entitlement of the directors under the defined benefit pension scheme at 31 December 2017 was £161,300 (2016: £135,200).

The total cost of contributions paid into the defined contribution pension scheme for the year ended 31 December 2017 was £7,200 (2016: £83,229).

The directors, including the highest paid director, were not entitled to receive aggregate cash payments during the year (2016: not entitled) under long-term incentive schemes from the Company. None (2016: none) of the directors received or became entitled to receive shares in RWE AG under long-term incentive schemes in the financial year. No (2016: no) directors, including the highest paid director, exercised share options for shares in RWE AG in the financial year.

In respect of the highest paid director:

	2017 £	2016 £
Total emoluments	371,045	376,649
Defined benefit accrued pension entitlement at the end of the year	65,600	66,500
Defined benefit accrued lump sum at the end of the year	100,600	95,800

14 Pension scheme funding

Pension and other schemes
As a result of the legal transfer of assets and liabilities into the RWE Npower (No 3) Group of the Electricity Supply Pension Scheme on 31 December 2016, during 2017, the majority of pensions were funded through the defined benefit scheme within the RWE Npower (No 3) Group of the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS). It is a defined benefit scheme with assets invested in separate trustee-administered funds. The ESPS is divided into sections. In addition to the defined benefit scheme, there was also a defined contribution scheme within the RWE Npower (No 3) Group of the Electricity Supply Pension Scheme; the Defined Contribution Section of the RWE Npower (No 3) Group of the ESPS.

Innogy Renewables UK Ltd has been the sponsoring entity for the RWE Npower (No 3) Group of the ESPS since its creation in March 2016 and remained so throughout 2017. On 1 January 2018 the Group's name was changed to the Innogy Group of the Electricity Supply Pension Scheme.

Throughout the whole of 2016, prior to the legal transfer of assets and liabilities into the RWE Npower (No 3) Group of the Electricity Supply Pension Scheme on 31 December 2016, the majority of pensions were funded through the defined benefit scheme within the RWE Npower Group of the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS). In addition to the defined benefit scheme, there was also a defined contribution scheme within the RWE Npower Group of the Electricity Supply Pension Scheme; the Defined Contribution Section of the RWE Npower Group of the ESPS.

RWE Generation UK Holdings plc was the sponsoring entity for the RWE Npower Group of the ESPS throughout 2016.

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.

Pension scheme restructuring
In the United Kingdom, corporate defined benefit plans are required to comply with the statutory funding objective to have adequate and suitable assets to cover the pension obligations. They are administered by a group of trustees, separate from the sponsoring employers, who are responsible for management of the plan including investments, pension payments and financing plans.

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 RWE Npower (No 3) Group - the "Innogy Section").

As part of the separation of Innogy, with effect from 31 July 2016, a proportion of accrued benefits and the associated share of assets transferred from the RWE Npower Group of the ESPS to the newly formed Innogy Section. The liabilities transferred to the Innogy Section included all current Innogy actives, the deferred membership and a proportion of the pensioner membership. The Innogy Section is ring-fenced from other sections operated by the RWE Npower Group and other sections within the ESPS, and is funded by the Company and other employers in the Innogy Group.

The Innogy Section is accounted for as a defined benefit multi-group scheme under IAS 19R (Employee Benefits) by Innogy Renewables UK Ltd and as a defined contribution scheme by all other participating employers in the Innogy Section.

14 Pension scheme funding (continued)

Defined contribution pension scheme

The defined contribution scheme; the Defined Contribution Section of the RWE Npower Group of the ESPS, was impacted in exactly the same way as the defined benefit scheme, as described below, by the terms within the Sectionalisation Deed on 31 July 2016.

Contributions totalling £1.3 million (2016: £1.5 million) were paid into defined contribution sections of the scheme by the Company.

Defined benefit pension schemes

On 31 July 2016, the RWE Npower Group of the ESPS was sectionalised, into the Holdco section, for the RWE companies and the Innogy section, for the Innogy companies, with the intention of subsequently legally transferring the respective assets and liabilities into the two separate Groups of the Electricity Supply Pension Scheme (the No 2 Group for the RWE companies and the No 3 Group for the Innogy companies), both of which had been initially created in March 2016. Upon creation the principal employer for the No 2 Group was and remains RWE Generation UK plc and for the No 3 Group was and remains Innogy Renewables UK Ltd.

Although sectionalisation took place on 31 July 2016, Npower Limited, along with other employers in the Group, continued to participate in the defined benefit pension scheme within the RWE Npower Group of the Electricity Supply Pension Scheme until 31 December 2016, at which point the legal transfer of assets and liabilities into the RWE Npower (No 3) Group of the Electricity Supply Pension Scheme took place (this transfer of assets and liabilities related to the proportion applicable to the Innogy companies only). From 1 January 2017, throughout the year, the Company, along with other employers in the Group, participated in the defined benefit pension scheme within the RWE Npower (No 3) Group of the Electricity Supply Pension Scheme.

The scheme was accounted for as a defined benefit multi-group scheme under IAS 19R (Employee Benefits) by RWE Generation UK Holdings plc (formerly RWE Npower Holdings plc) and as a defined contribution scheme by Innogy Renewables UK Limited up to 31 July 2016.

The sectionalisation took place on 31 July 2016 at which point asset and liability balances were transferred to the respective section relating to Innogy Renewables UK Limited and the other participating employers in line with the terms and conditions of the MoU.

The scheme was accounted for as a defined contribution scheme by Npower Limited for the whole of both 2016 and 2017, as it was also accounted for as a defined contribution scheme by the Company prior to 31 July 2016.

During the year ended 31 December 2017, Npower Limited contributed to the four defined benefit sections of the ESPS at a weighted average rate of 21% (2016: 16%) of members' pensionable earnings. This increase reflects the impact of the new Schedule of Contributions for the Group, which applied with effect from 1 April 2017. Administration expenses for the scheme became payable as a lump sum rather than as a percentage of pensionable salaries in 2015.

The most recent cash funding valuation was carried out as at 31 March 2016. At that date the deficit of the whole scheme was £566m giving a funding level of 90%, of which the deficit of the Innogy section was £378m, also with a funding level of 90%. The next valuation is due as at 31 March 2019. Following this, the company and the trustees have 15 months to agree the valuation and associated contribution requirements. The actuary has used appropriate actuarial roll-forward techniques to adjust the 31 March 2016 funding valuation to derive the accounting position as at 31 December 2017. As at 31 December 2017, there was a deficit on an accounting basis of £30m (2016: £273m).

14 Pension scheme funding (continued)

The Npower Limited cost of contributions (inclusive of contributions towards administrative expenses) during the financial year was £31 million (2016: £25 million) which includes additional contributions required to reduce the whole scheme deficit.

Contributions payable to the pension scheme at the end of the year are £nil (2016: £nil).

15 Tax on (loss)/profit

Tax (credited)/charged in the Profit and Loss Account:

	2017 £ m	2016 £ m
Current taxation		
Group relief payable/(receivable)	10	(2)
Deferred taxation		
Origination and reversal of temporary differences	(8)	9
Adjustments in respect of previous years	(1)	(1)
Impact of change in UK tax rate	-	2
Total deferred tax (credit)/charge	(9)	10
Total tax charge	1	8

The tax assessed on the loss before taxation is higher than the standard rate of corporation tax in the UK (2016: higher than the standard rate of corporation tax in the UK) of 19.25% (2016: 20%).

The differences are reconciled below:

	2017 £ m	(As restated) 2016 £ m
(Loss)/profit before taxation	(30)	12
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	(6)	2
Expenses not deductible for tax purposes	7	8
Group relief claimed for nil consideration	-	(2)
Impact of changes in UK tax rate	-	2
Adjustments in respect of prior years	(1)	(1)
Difference between current and deferred tax rates	1	(1)
Total tax charge	1	8

15 Tax on (loss)/profit (continued)

Tax included in Other Comprehensive Income	**2017 £ m**	**2016 £ m**
Loss recorded in Other Comprehensive Income multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	-	-
Total tax charge included in Other Comprehensive Income	-	-

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

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

No additional tax charge arises in respect of the prior period adjustment of £81 million increase to 2016 opening profit and loss account reserve (note 4), as the additional profit is treated as having been covered by losses surrendered by other group companies for no payment.

Debtors: Amounts falling due after more than one year

Deferred tax assets

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

2016	**Asset £ m**
Accelerated tax depreciation	36
Other items	(2)
	34

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

	2017 £ m	**2016 £ m**
To be recovered within 12 months		-
Deferred tax asset	-	
Deferred tax liability	-	-
To be recovered after more than 12 months		
Deferred tax asset	43	34
Deferred tax liability	-	-
	43	34

15 Tax on (loss)/profit (continued)

Deferred tax movement during the year:

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

Deferred tax movement during the prior year:

	At 1 January 2016 £ m	Recognised in Profit and Loss Account £ m	At 31 December 2016 £ m
Accelerated tax depreciation	28	8	36
Other items	16	(18)	(2)
Deferred tax assets	44	(10)	34

16 Intangible assets

	Goodwill £ m	Computer software £ m	Intangible assets under construction £ m	Total £ m
Cost				
At 1 January 2017	156	351	97	604
Additions	-	12	26	38
Disposals	-	(91)	-	(91)
Transfers	-	30	(30)	-
At 31 December 2017	156	302	93	551
Accumulated amortisation				
At 1 January 2017	-	187	-	187
Amortisation charge	-	60	-	60
Disposal	-	(91)	-	(91)
At 31 December 2017	-	156	-	156
Carrying amount				
At 31 December 2017	156	146	93	395
At 31 December 2016	156	164	97	417

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.

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

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

17 Tangible assets

	Land and buildings £ m	Furniture, fittings and equipment £ m	Assets under construction £ m	Other property, plant and equipment £ m	Total £ m
Cost					
At 1 January 2017	4	22	2	6	34
Additions	-	-	4	-	4
Disposals	-	(10)	-	-	(10)
At 31 December 2017	4	12	6	6	28
Accumulated depreciation					
At 1 January 2017	-	14	-	2	16
Charge for the year	-	3	-	-	3
Disposals	-	(10)	-	-	(10)
At 31 December 2017	-	7	-	2	9
Carrying amount					
At 31 December 2017	4	5	6	4	19
At 31 December 2016	4	8	2	4	18

18 Investments

	Subsidiary undertakings £ m
Cost	
At 1 January 2017	33
At 31 December 2017	33
Impairment	
At 1 January 2017	-
Charge during the year	5
At 31 December 2017	5
Carrying amount	
At 31 December 2017	28
At 31 December 2016	33

18 Investments (continued)

Details of the subsidiaries as at 31 December 2017 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest through ordinary shares and voting rights held 2017	2016
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	Energy management solutions	England and Wales	100%	100%
PS Energy UK Limited	Energy supplier	England and Wales	100%	100%

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

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

The directors believe that the carrying value of the investments is supported by their underlying net assets and future expected cash flows from trading.

19 Stocks

	2017 £ m	2016 £ m
Raw materials and consumables	2	1

20 Debtors: Amounts falling due within one year

	2017 £ m	(As restated) 2016 £ m
Trade debtors	617	464
Amounts owed by group undertakings	996	1,021
Other debtors	2	1
Accrued income	369	379
Prepayments	39	17
Total debtors	2,023	1,882

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

Amounts owed by group undertakings include £nil million of group relief receivable (2016: £2 million).

Trade debtors are stated after provisions for impairment of £25million (2016: £25million).

21 Available for sale financial assets

	2017 £ m	2016 £ m
Telecom Plus plc shares	5	5

Available for sale financial assets are stated at fair value. The Company holds 426,989 shares in Telecom Plus plc (2016: 426,989 shares). The investment is recorded at fair value, and as at 31 December 2017 this was £5,128,138 (2016: £5,021,391), based on a closing mid market price of £12.01 per ordinary share (2016: £11.76 per ordinary share).

22 Creditors: Amounts falling due within one year

	2017 £ m	(As restated) 2016 £ m
Bank overdrafts	4	-
Loans owed to group undertakings	844	533
Customer payments in advance	33	43
Trade creditors	79	155
Amounts owed to group undertakings	627	699
Other payables	4	5
Social security and other taxes	25	77
Accrued expenses	677	654
Total creditors	2,293	2,166

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment and include £16m of group relief payable (2016: £5m).

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

The Company entered into a loan agreement with Npower Group Limited. The book value at 31 December 2017 and the associated principal amounts lent under this agreement totalled £844m. The loan is unsecured and at 31 December 2017 bore interest at a rate of 1.56% (2016: 3.2%). Loans owed by group undertakings also include accrued interest payable on the loan agreement.

23 Obligations under leases and hire purchase contracts

Operating leases

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

	2017 £ m	2016 £ m
Within one year	3	3
In two to five years	2	5
	5	8

The amount of non-cancellable operating lease payments recognised as an expense during the year was £3 million (2016: £4 million).

24 Share-based payments

The share based payment schemes for executives and employees of Npower Limited consisted of an equity settled scheme - a SAYE sharesave scheme - where the employee received options in the share capital of RWE AG. There is also a cash settled scheme, the long-term incentive plan 'BEAT', which had tranches commencing up to and including 2015. In 2016 BEAT was replaced by the Strategic Performance Plan ("SPP") scheme. As a condition of accepting a grant in the 2016 tranche of SPP, all current employees with an entitlement to conditionally granted performance shares in all current tranches of BEAT agreed to waive that entitlement. The administrative process for this took place in January and February 2017. As a result of this only 'good leavers' retain an entitlement to conditionally granted performance shares in the current tranches of BEAT.

BEAT

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

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

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

BEAT	**2015 tranche**
Grant date	01/01/15
Number of conditionally granted performance shares	32,199
Term	4 years

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

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

24 Share-based payments (continued)

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

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

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

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

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

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

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

SPP

	2017 tranche	**2016 tranche**
Grant date	01/01/2017	07/10/2016
Number of conditionally granted performance shares	71,616	16,889
Term	4 years	3 years

For the tranches 2017 to 2019, the determination of the number of conditionally granted Performance Shares is conducted at the beginning of the respective Grant Year. For the conversion to conditionally granted Performance Shares, the Target Amount is divided by the arithmetic mean, commercially rounded to two decimal places, of the Closing Prices (considering all available decimal places) of innogy SE (ISIN: DE000A2AADD2) as quoted on the XETRA trading system of Deutsche Börse AG (or any successor system replacing the XETRA trading system) over the last 30 Trading Days prior to January 1 of the respective Grant Year. For the tranche 2016, in contrast, the arithmetic mean over the first ten Trading Days following the Date of the IPO (October 7 to October 20) is used.

24 Share-based payments (continued)

Key performance criterion
The key performance criterion used to determine the final number of Performance Shares is the Adjusted Net Income ("ANI") of innogy SE. ANI is calculated by subtracting / adding the following positions from / to Net Income:

a) Non-operating result (minus taxes on the non-operating result)

b) Effect from re-evaluations of bonds of Finance B.V.

c) Income from securities sales

The periodical external publications (annual report, quarterly reports) cover such aspects.

The Executive Board of innogy SE once sets ANI target values ("ANI Target Value") for the fiscal years 2017 to 2019 prior to January 1, 2017. If the ANI Target Value set for the respective Grant Year is achieved, 100% of the conditionally granted Performance Shares of this tranche are finally allocated. For the tranche 2016, in contrast, the ANI of the fiscal year 2017 is used for the target setting and the assessment of the conditionally granted Performance Shares.

If the ANI Target Value set by the Executive Board for the fiscal years 2017 to 2019 is missed by exactly 35% ("ANI Threshold") at the end of the respective fiscal year, 50% of the conditionally granted Performance Shares are finally allocated. If the ANI Threshold is missed, all conditionally granted Performance Shares of this tranche lapse. If the ANI Target Value is exceeded by 35% or more ("ANI Maximum Value"), the maximum number of 150% of the conditionally granted Performance Shares are finally allocated. Between the ANI Threshold and the ANI Target Value as well as between the ANI Target Value and the ANI Maximum Value linear interpolation is used to determine the number of finally allocated Performance Shares. The determined number is commercially rounded up to complete shares.

24 Share-based payments (continued)

Pay-out of performance shares
The payout amount is calculated using the number of finally allocated Performance Shares multiplied with the sum of :

a) the arithmetic mean (considering all available decimal places) of the Closing Prices of innogy SE (ISIN: DE000A2AADD2) as quoted on XETRA trading system of Deutsche Börse AG (or any successor system replacing the XETRA trading system) over the last 30 Trading Days prior to the end of the Vesting Period, commercially rounded to two decimal places, and

b) dividends paid per share in the fiscal years between the final allocation of Performance Shares and the end of the Vesting Period. Dividends are not reinvested or eligible to any interest payments. If a dividend payment occurs within the 30 Trading Days prior to the end of the Vesting Period, share prices of the Trading Days before the payment (Cum-prices) are adjusted for the dividend payment in order to avoid proportionate double counting of the dividends.

Payout amount = (number of finally allocated Performance Shares) x (arithmetic mean of Closing Prices + paid dividends)

The payout amount shall be limited to twice the Target Amount.

The Plan Participant is informed of the payout amount via a payout letter.

If the financial statements of the subsidiary employing the Plan Participant are kept in a currency other than the euro, the payment shall be made in said currency. The payout amount shall be converted based on the average fixing rates of the European Central Bank over the last 30 Trading Days prior to the end of the Vesting Period.

24 Share-based payments (continued)

Changes in corporate control
A change of control ("Change of Control") shall be deemed to have taken place if:

a) a shareholder has taken control pursuant to § 29 of the German Wertpapiererwerbs- und Übernahmegesetz (WpÜG, German Securities Acquisition and Takeover Act) by holding at least 30% of the voting rights - including the attributed voting rights of third parties pursuant to § 30 of the WpÜG - and neither RWE nor a RWE Group company have control pursuant to § 29 WpÜG (30% of voting rights) at this time or

b) a controlling agreement (Beherrschungsvertrag) with a company which is not part of RWE Group is entered into and has taken effect with innogy SE as dependent company pursuant to § 291 of the German Aktiengesetz (AktG, German Stock Corporation Act) or

c) innogy SE is merged with a legal entity which is not part of RWE Group pursuant to § 2 of the German Umwandlungsgesetz (UmwG, German Transformation Act), unless the value of the external legal entity amounts to less than 50% of the innogy SE value according to the agreed upon conversion ratio. Under these circumstances, lit. a) is not applicable.

In the event of a Change of Control all Performance Shares which have been finally allocated and have not yet been paid out, are paid out prematurely. The payout amount is calculated as described above. However, the arithmetic mean is calculated over the last 30 Trading Days preceding the announcement of the Change of Control plus the paid dividends per share in the respective fiscal years - referring to the finally allocated number of Performance Shares - between the final allocation of the Performance Shares and the Change of Control. The accordingly calculated payout amount will be paid out to the Plan Participant with the next possible payroll.

All Performance Shares which have not been finally allocated at the time of the Change of Control will lapse without replacement and compensation.

Form of settlement - cash
The fair value of the performance shares conditionally granted in the SPP programme amounted to €37.13 per share as of the grant date for the 2016 tranche.

The fair value of the provision in respect of BEAT and SPP included within the financial statements at 31 December 2017 is £nil (2016: £nil).

24 Share-based payments (continued)

Sharesave scheme

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

	2013 tranche
Grant date	12/07/2013
Max numbers of options granted	346,629
Term	3 years
Vesting conditions	Waiting period: 3 years
Exercise price (£ per share)	17.73
Form of settlement	Existing shares

	2013 tranche
Balance at start of the fiscal year	132,136
Grant during the year	-
Forfeited during the year	-
Exercised during the year	-
Expired during the year	(132,136)
Balance at the end of the fiscal year	-
Exercisable at the end of the fiscal year	-

No average weighted share price as of the exercise date was calculated as no options from the sharesave scheme were exercised in 2017 (2016: nil). All options from the sharesave scheme expired by the Balance Sheet date.

The fair value of the liability arising from the employee services received in respect of the 2013 tranche of sharesave scheme included within the financial statements of Npower Limited at 31 December 2017 is £nil (2016 £1m).

In the year under review, the total expense for share based payment schemes for the Retail Group amounted to £nil (2016: £nil) of which £nil (2016: £nil) was recharged from other group companies. As a result of the transfer of employment contracts on 1 October 2014, and the subsequent creation of the associated BEAT provision, none of the 2015 BEAT credit has been recharged to other group companies. In respect of these recharges, £nil (2016: £nil) was cash-settled by Npower Limited.

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

25 Derivative financial assets/(liabilities)

At 31 December 2017, derivative financial assets/(liabilities) outstanding related to power trades and swaps. The derivative financial assets mature over the period 2017 to 2021.

	2017 £ m	2016 £ m
Commodity derivatives	38	28

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

Financial instruments by category

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

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

2016 Assets as per balance sheet	Loans & receivables £ m	Available for sale £ m	Assets at fair value through profit & loss £m	Total £ m
Derivative commodity instruments	-	-	28	28
Available for sale financial assets	-	5	-	5
Trade & other receivables excluding prepayments	1,834	-	-	1,834
Cash & cash equivalents	44	-	-	44
Total	1,878	5	28	1,911

25 Derivative financial assets/(liabilities) (continued)

2016 Liabilities as per balance sheet	Other financial liabilities at amortised cost £ m	Total £ m
Borrowings	533	533
Trade and other payables excluding non-financial liabilities	1,585	1,585
Total	2,118	2,118

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

	Level 1 2016 £ m	Level 2 2016 £ m	Level 3 2016 £ m	Total £ m
Commodity derivatives	-	28	-	28
Total	-	28	-	28

25 Derivative financial assets/(liabilities) (continued)

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

	Assets/ (liabilities) at fair value through profit and loss 2017 £ m	Assets/ (liabilities) at fair value through profit and loss 2016 £ m
Due within one year	17	6
Due in more than one year and less than two years	19	18
Due in more than two years and less than five years	2	4
Total	38	28

Financial risk management

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

b) Credit risk
The commodity contracts entered into are with RWEST, a subsidiary of RWE AG. RWE AG has an investment grade credit rating with major rating agencies and is the ultimate controlling company of RWEST and the majority shareholder of innogy SE. Due to the nature of the relationship between RWEST and Npower Limited, the exposure to credit risk is considered small.

None of the financial assets are past due or impaired as at 31 December 2017.

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 2017	Gross amounts of recognised financial assets £ m	Gross amounts of financial liabilities set off in the balance sheet £ m	Net amounts of financial assets presented in the balance sheet £ m
Commodity derivatives	81	(43)	38
Total	81	(43)	38

As at 31 December 2016	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	106	(78)	28
Total	106	(78)	28

(b) Financial liabilities

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

As at 31 December 2017	Gross amounts of recognised financial liabilities £ m	Gross amounts of financial assets set off in the balance sheet £ m	Net amounts of financial liabilities presented in the balance sheet £ m
Commodity derivatives	(43)	43	-
Total	(43)	43	-

As at 31 December 2016	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	(78)	78	-
Total	(78)	78	-

26 Provisions for liabilities

	Liabilities and claims £ m	Restructuring £ m	Other provisions £ m	Final customer credits £ m	Total £ m
At 1 January 2017	9	6	2	2	19
Increase in existing provisions	17	2	3	-	22
Provisions used	(8)	(4)	-	-	(12)
Unused provision reversed	(12)	(1)	-	(2)	(15)
At 31 December 2017	6	3	5	-	14

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

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

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

The customer credit provision was released in 2017 as the amount of customers credits returned was deemed to be immaterial. This is due to significant process improvement in the customer credits process within Npower over the last few years. All npower business solutions customers who request a genuine credit will still be refunded as per the previous process.

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 2017 the total value of these guarantees amounted to £21 million (2016: £15 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

	2017 No.	2017 £	2016 No.	2016 £
Ordinary shares of £1 each (2016: £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 RWE AG, a company incorporated in Germany, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of RWE AG consolidated financial statements can be obtained from RWE AG, Huyssenallee 2, 45128 Essen, Germany.

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