Registration number: 03653277

Npower Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020

Npower Limited
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Npower Limited
Strategic Report for the year ended 31 December 2020

The directors present their Strategic Report on Npower Limited ("the Company") for the year ended 31 December 2020.

Business review and future developments
The Company forms part of the npower Retail Group which consists of 5 main trading entities and 3 other entities. The main trading entities operate in varying business areas, namely:

- Home - residential customers
- npower Business - small and medium enterprise customers
- npower Business Solutions - industrial and commercial customers

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

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

* Ceased trading in 2016

During 2020 the entity Npower Direct Limited was sold to E.ON UK plc and was renamed to E.ON Next Energy Limited. Npower Direct Limited operated in the npower Business segment prior to sale to E.ON UK plc.

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

The underlying operating loss for this group of companies was £144 million in 2020 (2019: loss of £177 million).

General

On 29th November 2019, it was announced that customers of npower Retail Group's Home and npower Business segments would transfer to E.ON UK systems commencing Q2 2020 with completion scheduled for mid-2021. The transfer of these customers was formalised in a Sale and Purchase Agreement (SPA) on 11th February 2020.

The migration of customers to E.ON UK will also see the closing of the operational segments for the Home and npower Business with related office closures and the loss of around 4,500 employees over the course of the wind down of operations expected to last into 2022. The npower Retail Group offers enhanced redundancy terms which will continue to apply for those employees who are made redundant as part of this process.

The npower Business Solutions segment is to merge with E.ON's Industrial and Commercial (I&C) segment. Npower Business Solutions customers will be moved to the Junifer billing platform and the business will then be hived down entirely to Npower Commercial Gas Limited (NCGL), a direct subsidiary of the Company, in the first half of 2021. The intention is for E.ON Energy Solutions Limited's I&C customers to also be transferred to NCGL. The Company will continue to employ staff working in the merged I&C business to be recharged to NCGL, the trading of the Company will however cease in 2021 and the Company will wind down its operations after Q2 2022.

In December 2020, Npower Limited purchased 70,000,000 shares issued by Npower Commercial Gas Limited (NCGL) at £1 per share. NCGL will become the new home to the combined npower and E.ON UK Industrial and Commercial businesses in 2021.

Coronavirus / Covid-19

The global spread of the coronavirus and the measures taken to control it substantially limited economic activity over the course of 2020 across the globe and, in turn, the United Kingdom. The net adverse financial impact across the npower Retail Group amounted to more than £80m which primarily related to increased energy industry costs, reduced sales volumes, commodity hedge sellbacks and bad debt charges, these downsides were partly offset by government furlough income and reduced energy industry obligations costs.

Brexit

The UK left the European Union (EU) on 31st January 2020 with a transitional period up until 31st December 2020. This process has often been referred to as "Brexit". On 30th December 2020, the UK Government passed legislation for a new EU-UK Trade and Cooperation Agreement (the "Agreement"). Work was conducted throughout 2020 in readiness for the cessation of the transitional period on a no-deal basis. The Agreement has ensured that trade and commerce will still pass between the EU and the UK which reduces the impact of Brexit on the npower Retail Group. Given the planning undertaken and the Agreement, there are not expected to be any material implications on the balance sheet as at 31 December 2020 as a result of Brexit.

npower Business Solutions

During 2020 a new strategic direction was agreed for npower Business Solutions, with the decision to combine the segment with its E.ON UK equivalent following the takeover of innogy SE by E.ON SE. This will leverage the industry leading systems and operating model being deployed in npower Business Solutions across a larger customer base to unlock significant synergies and simplify the combined UK business, creating a new market leader in UK electricity supply. This decision comes in the context of the ongoing wind-down of other npower lines of business which are being amalgamated into E.ON UK.

The combined UK Corporates business will be housed in Npower Commercial Gas Limited, which will be a dedicated entity for UK Corporates. This legal entity change is anticipated to be in place from mid-2021.
The IT re-platforming of npower Business Solutions onto the Junifer platform continued throughout 2020, and at the year-end 19% of meter points, representing 92% of customers had been transitioned to the target platform. Further migrations are planned and the programme is expected to complete during 2021.

2020 financial performance was dominated by the impacts of the Covid-19 pandemic, which heavily affected the profitability of the segment. Government mandated lockdowns resulted in very significant reductions to customer demand, which in turn led to lower margins in the supply of commodity electricity and gas, as well as costs for selling back unused commodity purchases. Additionally, charges for bad debt in 2020 were significantly higher than prior years, with the economic distress felt by some customers resulting in higher levels of aged solvent debt than have historically been the case.

Supply volumes were significantly lower than prior years driven by Covid-19 effects. The segment supplied 20.6 Terra Watt hours (TWh) of electricity and 2.9 TWh of gas in 2020, these figures are down c.15% compared to 2019. Financial performance outside of Covid-19 effects was strong, once Covid-19 effects are removed gross margin delivery in both Power and Gas were increased from 2019, and allocated charges were £5m lower than 2019 driven by ongoing reductions to staff numbers in management support functions.

Forward sales remained strong in 2020, with Commodity and Services sales teams exceeding internal targets by around 8% despite considerable disruption to customers from the pandemic. The segment remains a major player in the UK Power Purchase Agreement off-taker market, as well as supplying metering services. Solutions elements of the segment, comprising both energy efficiency advice and project delivery capability are anticipated to transfer to the E.ON UK equivalent business units in 2021, they are estimated to have contributed a £4m EBIT (earnings before interest and tax) loss in 2020.

From a regulatory perspective the segment continues to focus on the roll-out of advanced metering to the customer base, with significant engagement from the management team throughout 2020 and continuing into 2021.

The focus of the segment in 2021 is on operating efficiently, and on the successful completion of both Junifer re-platforming implementation and the integration with E.ON Corporates.

Home

2020 npower Home financial results were materially influenced by the successful migration of over half the customer base to E.ON UK by year end. Continued cost reduction and flow through of Valuable Core 'essential activity only' programme benefits from the prior year have helped to deliver a significantly lower loss compared to 2019. This result is encouraging as the segment also dealt with the adverse impacts of both Covid-19 and warmer weather.

The priorities for npower Home in 2020 were to achieve migration delivery targets whilst maintaining good customer service, remaining compliant with regulatory requirements and delivering its smart meter obligations. Through this journey, the health and safety of employees and customers has been at the forefront; not only to contribute to a sustainable future E.ON UK business, but also to navigate through the challenges brought by the Covid-19 pandemic.

From the point of agreed migration to E.ON UK in February 2020, all tariffs were aligned with E.ON UK and sales activity was gradually wound down or transferred to E.ON UK's platform. Following a successful pilot, account transfer activity ramped up across the Autumn and ended the year with almost two thirds of accounts successfully migrated, in line with expectations. This left around one third of the customer base still to migrate by the Spring of 2021 before the close down of npower Home systems could commence. At the year-end, the residential segment had 1.1m customer meter accounts remaining, having started the year with 3.2m.

The UK energy market in 2020 has continued to endure its challenges with a number of small suppliers exiting the market. The continued threat to this section of the market has been fuelled by financial pressures including the cost of renewable energy obligations and feed in tariff payments. Fewer small suppliers have exited the market in 2020 compared to the prior year. Survival chances have been improved by low energy prices and financial support by the government's furlough scheme. There was also an impact on switching levels with data showing the first year on year decline since 2014 which coincided with the March Covid-19 outbreak.

Externally, like many other sectors, Covid-19 had a large operational impact, however this was mitigated by the ability to quickly orchestrate home working across the workforce. The segment was negatively impacted due to the adverse impact on third party costs from falling national demand, specifically network balancing costs, contracts for difference, feed-in-tariff costs and the recoverability of debt with household incomes coming under increased pressure. These challenges were offset by more customers staying in and working from home contributing up to 5% higher energy consumption. In addition, restrictions imposed saw the deferral of Energy Company Obligation (ECO) spend and savings across some operational activities. Customer service levels have remained strong and largely consistent with 2019 despite the ongoing customer migration and lockdown periods throughout.

Looking ahead, the priority for 2021 remains the successful completion of migration to E.ON UK, whilst maintaining service stability and ensuring the health and safety of employees. This includes the archiving of data, decommissioning of IT systems and the closure of npower sites.

Statement made under Section 172(1) of the Companies Act 2006 ('Act')
The directors acknowledge and understand their duties under the Act and in particular their duty to act in a way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term;
(b) the interests of the Company's employees;
(c) the need to foster the Company's business relationships with suppliers, customers and others;
(d) the impact of the Company's operations on the community and the environment;
(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly between members of the Company.

The directors regard a well-governed business as essential for the successful delivery of its principal activity. The Company is an indirect subsidiary of E.ON SE, a company listed on the Frankfurt Stock Exchange and which is head-quartered in Essen, Germany. The two main operating divisions of the E.ON SE group are Energy Networks and Customer Solutions.

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

The Company's directors believe that, to the extent necessary for an understanding of the development, performance and position of the Company, the requirements of section 172(1) are discussed within the E.ON SE Annual Report 2020 on pages 14 to 115, which does not form part of this report.

The directors believe that effective and meaningful engagement with stakeholders is key to promoting the success of the Company. The Company's key stakeholders and how the Company has engaged with these stakeholders is set out below:

1. Customers

The Company offers its customers a wide range of products and services in the energy supply and solutions market. During the year the company has commenced the migration of its Domestic and SME customers to E.ON Next Energy Limited and we have ensured that our customers have been suitably informed about how this process will impact them. Our larger I&C customers will be retained within the npower group of companies and the intention is that they will be merged with the I&C customers of E.ON in an enlarged I&C business. Our I&C customers also have been kept fully informed during this process. Throughout the year we have continued to to deal with all of our customers fairly and to seek to offer them products and services that are suitable to their needs.

Statement made under Section 172(1) of the Companies Act 2006 ('Act') (continued)
2. Employees

The Company recognises that its success depends on the quality of performance of its employees. Communication programmes are in place to ensure that employees understand the business strategy and we have been very clear about how the wind down of the npower business will impact them and what it means for them personally. Throughout the year, principally through regular team briefings and meetings with employees and their representatives, individual businesses carry out employee consultation and communication on matters relating to business performance and objectives. There are also well established consultative and negotiating arrangements involving employees, employee representatives and trade union officials to ensure that employees' views are considered in relation to employment conditions, safety and health, welfare and training issues.

The Company directors engage with Company employees through regular communications of business strategy via meetings and email, and are clear about how they can contribute to a successful wind down programme. Involvement of employees in the Company's performance is also encouraged via the Company's bonus scheme, which is partly linked to Company performance.

The Company provides appropriate training and extensive knowledge resources in order to satisfy business needs and to develop the know-how, talents and skills of employees, benefiting the individual, the Company and its customers.

The Company fully recognises its responsibility to encourage and assist the recruitment, employment, training and career development of people with disabilities. If employees become disabled during their service with the Company, arrangements are discussed to enable continuity of employment and development as appropriate.

3. Suppliers

The Company advocates free competition and transparent markets and is against unfair competition and restrictions of competition. This includes complying with requirements regarding tax levies, subsidy grants and procedures for awarding public contracts. Through the Company's activities, it would like to set an example and work towards propagating the set of standards in its Code of Conduct. The Company expects its trading partners to accept the social, environmental and corporate governance standards in its Code of Conduct as the basis for the contractual partnership. If it becomes known that a business partner has violated these responsibilities, the Company will re-examine its business relationship with that partner and take any appropriate measures deemed necessary.

When choosing consultants and agents, the Company focuses on their qualifications and integrity. In all business relationships, the Company observes the applicable national and international laws and regulations as well as any other applicable foreign trade law restrictions. The Company also take all necessary and appropriate measures to prevent money laundering.

Statement made under Section 172(1) of the Companies Act 2006 ('Act') (continued)

4. Communities and the environment

Society expects increasingly more of the energy industry, particularly of large energy companies. The Company is committed to providing answers to questions about climate change, energy efficiency and what tomorrow's energy supply will look like. The Company continues to engage in dialogue with its stakeholders and customers and seeks to deal with society's evolving expectations. The Company's ability to remain successful over the long term depends in part on incorporating its stakeholders' and customers' interests and expectations into the way it operates its business.

The Company and its subsidiaries now reach nearly a fifth of households and small businesses across Britain and it is through our customers' energy use that we make our most material contribution to communities and the environment. Which is why our residential and eligible small business customers now receive 100% renewable electricity on all tariffs, as standard, at no extra cost. To help our customers on the energy transition, we are also continuing the roll-out of smart meters which is a key enabler for supporting broader system changes. We are working with a number of local authorities across the country to help them upgrade homes of vulnerable customers with energy efficiency, solar and heat pumps through the Green Homes Grant Local Authority Delivery Scheme and the Energy Company Obligation.

5. Government and regulators

The Company has worked with our colleagues in E.ON UK to engage in intensive and constructive dialogue with government agencies and policy makers either directly or through third party organisations, such as trade associations.

Engagement includes CEO Ministerial roundtables on supply market issues, monthly BEIS meetings with senior officials on designing the future Energy Company Obligation and being a member of the BEIS Smart Metering Delivery Group. The Company has also been engaging extensively with BEIS and HM Treasury on the future policies that will be required to deliver the UK's transition to net zero, particularly around decarbonising homes, how to make the electricity system more flexible and demand led, and the important role of suppliers in helping customers upgrade their homes in making the transition to low carbon.

Statement made under Section 172(1) of the Companies Act 2006 ('Act') (continued)
6. Shareholder group

As a wholly owned indirect subsidiary of E.ON SE, the protection of the shareholders' capital investment and a fair return on this investment is a prerequisite of its business activities. The Company seeks to preserve this capital and achieve fair returns on it in line with market conditions.

E.ON SE, as a listed entity and the ultimate parent undertaking of the Company, publishes company information in accordance with German and international capital markets provisions in order to enable proper trading in company securities.

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

Only authorised persons are allowed to disclose information to the public, the media or to other third parties that could affect the price of E.ON SE's securities and the value of the E.ON SE group, including information relating to the Company.

Npower Limited
Strategic Report for the year ended 31 December 2020 (continued)

Position of the Company

The Company's profit for the financial year ended 31 December 2020 was £149 million (2019: profit of £86 million). The net assets of the Company at 31 December 2020 were £446 million (2019: £241 million).

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. These risks are not managed on a legal entity basis, but overseen for the npower Retail Group, of which this Company belongs, as part of the enterprise risk management process of E.ON UK. The npower Retail Group continues to invest in a formal, regular risk assessment process to identify, monitor and mitigate as far as possible any risk that should arise. Risks specific to npower Retail Group are reviewed by the Chief Financial Officer of npower, prior to formal review by the E.ON UK Risk Committee; this takes place on a quarterly basis and actions are taken as appropriate.

The key business risk affecting the npower Retail Group is the competitive retail market which could impact the Company's ability to achieve its targets for customer numbers and/or gross margin per customer. The main external uncertainties faced are: the impact of energy efficiency initiatives, the strength of the economy and weather impacts on customer consumption; volatility in wholesale energy prices; and the level of network and environmental charges. Furthermore, the Company has a number of operational risks as part of its end-to-end processes. The Covid-19 pandemic increases the risks to the Company as set out above, and additionally increases the risks related to customers' ability to pay. Detailed discussions of these risks and opportunities, in the context of the E.ON SE Group as a whole are provided on pages 57 through 64 of the E.ON SE 2020 Annual Report, which is available in the investor relations section of the eon.com website.

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

Key performance indicators (KPIs)

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

Approved by the Board on 2 July 2021 and signed on its behalf by:

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Mr S Stacey
Director

Npower Limited
Directors' Report for the year ended 31 December 2020

The directors present their report on the Company and the audited financial statements for the year ended 31 December 2020.

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 (2019: £nil).

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

Mr C Pilgrim

Mr J Scagell

Mr S Stacey

Mr C Thewlis

Mr A Ainsworth (appointed 1 July 2020)

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

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

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will continue to trade for at least the next 12 months. The basis of this assumption depends on the support of Npower Group Limited. Whilst Npower Group Limited had net current liabilities of £295m as at 31 December 2020, it has and continues to benefit from the support and access to funding from the intermediate parent company, innogy SE and the ultimate parent company, E.ON SE. The Directors of Npower Group Limited believe this support will continue to be provided because:

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

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

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

• Npower Group Limited has received a letter of support from innogy SE indicating that it intends to provide such funds as are necessary for Npower Group Limited to trade for at least the next 12 months and up to completion of the winding-down of operations; and

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

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

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

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

The npower Retail Group's Business Solutions segment is to merge with E.ON's Industrial and Commercial (E.ON I&C) segment. Npower Business Solutions customers will be moved to the Junifer billing platform and the business will then be hived down from Npower Limited to subsidiary company Npower Commercial Gas Limited (NCGL) in 2021. Following the hive down the customers of E.ON I&C will then be transferred into NCGL.

Going concern (continued)

The Company is a 100% owned subsidiary of the E.ON SE group, being a large group, E.ON manages its financial resources with a Group Treasury function. This function allocates financial resources across the Group to meet all financial obligations in a timely fashion.

Future decisions by E.ON SE could lead to some or all of the companies within the npower Retail group ceasing to trade. The Company's existing Home customers were sold to E.ON UK in February 2020, and these customers will migrate to E.ON UK. The Company will continue to serve npower Business Solutions customers in 2021 until all customers within that segment are transferred to NCGL. The Company will continue to as the main employer for the staff of the npower Business Solutions segment and related functional areas.

Given the above position, the financial statements of the Company have been prepared on a going concern basis, and this treatment will be reviewed on an annual basis.

Research and development

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

Stakeholder engagement (Suppliers, Customers and Others)

For information regarding how the directors have engaged with stakeholders, such as suppliers, customers and others during the financial year, including the effect of that regard on Principal Decisions taken during the year, please see the Section 172 Statement in the Strategic report, which is incorporated into this Director's report by reference and forms an integral part of this report.

Employee engagement statement

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

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

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

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

Equal opportunities and diversity

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

Financial risk management

Capital management

The Company's objectives, policies and processes for managing capital are consistent with those of the E.ON SE Group. Detailed discussions of these, in the context of the E.ON SE Group as a whole, are provided on pages 57 to 64 of the E.ON SE 2020 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, the Counterparty Risk Management function of E.ON SE is required to sign off the account prior to acceptance.

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

Liquidity risk

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

Commodity price risk

The Company is exposed to commodity price risk as a result of its operations. The risk is actively managed through the application of appropriate techniques and methodologies in accordance with the Risk Management Policy of E.ON 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), and the reporting of unhedged positions. The hedge policies determine the timing of the purchase of physical forward contracts for power and gas to cover customers' supply requirements. Financial contracts may also be 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.

Npower Limited
Directors' Report for the year ended 31 December 2020 (continued)

Financial risk management (continued)

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

General risk management
As a subsidiary of EON 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.

Streamlined Energy and Carbon Reporting (SECR) for the year ended 31st December 2020

Large unquoted companies are obliged to report their UK energy use and associated greenhouse gas emissions, relating to gas, electricity and transport fuel, as well as an intensity ratio and information relating to energy efficiency action, through their annual reports. The npower Retail Group has complied with the requirements on an individual company level where the emissions and energy use are contractually bound to the company reporting and also disclosed the energy use across the npower Retail Group as a whole. The reporting is shown in the tables below:

Company

Global GHG emissions and energy use for period 1 January 2019 to 31 December 2020	**Current reporting year 2020** **UK and offshore**	**Comparison reporting year 2019** **UK and offshore**
Energy consumption used to calculate emissions (kWh)	9,765,521	16,058,737
Emissions from combustion of gas (Scope 1) tCO2e	572	601
Emissions from combustion of stationary sources (Scope 1) tCO2e	32	24
Emissions from combustion of fuel for transport purposes (Scope 1) tCO2e	-	-
Emissions from business travel in rental cars or employee-owned vehicles where the company is responsible for purchasing the fuel (Scope 3) tCO2e	216	1,169
Emissions from purchased electricity (Scope 2, location-based) tCO2e	1,309	2,011
Total gross (Scope 1, 2 & 3) tCO2e	2,129	3,804
Intensity ratio (gross Scope 1, 2 & 3) tCO2e/Revenue(£m)	0.66	1.06

Streamlined Energy and Carbon Reporting (SECR) for the year ended 31st December 2020 (continued)

Methodology	Data collected as part of a certified ISO 50001 Energy Management System in accordance with 2020 Government greenhouse gas conversion factors for company reporting. An instance of estimation is applicable for Scope 2 emissions relating to a landlord managed office. The estimation technique utilises an estimated monthly kWh based on 6 months data extrapolated for a 7 month period to provide a 12 month period. Data collated using the Energy Managers Association SECR reporting tool.
External verification and assurance	Certification to ISAE 3000 (limited assurance) by Ricardo Energy & Environment

Energy Efficiency Action Taken:

In the period covered by the report the Company has maintained a mature energy management system certified to ISO 50001 and ensured electricity purchased for the npower estate during the period is 100% REGO-certified renewable energy. The company continues to see a significant and ongoing reduction of its carbon footprint in line with the wind up of its estate and operations.

npower Retail Group

Global GHG emissions and energy use for period 1 January 2019 to 31 December 2020	Current reporting year 2020 UK and offshore	Comparison reporting year 2019 UK and offshore
Energy consumption used to calculate emissions (kWh)	19,669,188	32,635,346
Emissions from combustion of gas (Scope 1) tCO2e	608	636
Emissions from combustion of stationary sources (Scope 1) tCO2e	32	24
Emissions from combustion of fuel for transport purposes (Scope 1) tCO2e	2,103	3,616
Emissions from business travel in rental cars or employee-owned vehicles where the company is responsible for purchasing the fuel (Scope 3) tCO2e	274	1,308
Emissions from purchased electricity (Scope 2, location-based) tCO2e	1,477	2,274
Total gross (Scope 1, 2 & 3) tCO2e	4,494	7,857
Intensity ratio (gross Scope 1, 2 & 3) tCO2e/Revenue(£m)	0.88	1.3

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

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

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

Approved by the Board on 2 July 2021 and signed on its behalf by:

....

Mr S Stacey
Director

Npower Limited
Independent auditors' report to the members of Npower Limited

Report on the audit of the financial statements

Opinion

In our opinion, Npower Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2020; the Profit and Loss Account, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Report on the audit of the financial statements (continued)

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with industry regulations, employment legislation and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of unusual journals to revenue or the manipulation of accounting estimates which could be subject to management bias. Audit procedures performed by the engagement team included:

- Understanding and evaluating the key elements of Npower's internal controls around accounting estimates;
- Reviewing accounting estimates for any indicators of management bias by validating supporting evidence and challenging the assumptions that are made;
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- Review of legal expense accounts, board minutes, internal audit reports and internal documentation alongside discussions with the heads of legal and regulatory within the business; and
- Substantive testing of journal entries, in particular any journal entries posted with unusual account combinations which result in an impact to revenue.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

2 July 2021

Npower Limited
Profit and Loss Account for the year ended 31 December 2020

	Note	2020 £ m	2019 £ m
Turnover	4	3,202	3,598
Cost of sales		(3,025)	(3,413)
Gross profit		177	185
Administrative expenses		(77)	(30)
Other operating income	5	43	417
Other operating expense	5	(125)	(233)
Unrealised gains/(losses) of financial derivatives	6	142	(179)
Operating profit	7	160	160
Income from shares in group undertakings	9	23	-
Interest receivable and similar income	10	2	10
Interest payable and similar expenses	11	(8)	(23)
Profit before taxation		177	147
Tax on profit	15	(28)	(61)
Profit for the financial year		149	86

The above results were derived from continuing operations.

The notes on pages 26 to 71 form an integral part of these financial statements.

Npower Limited
Statement of Comprehensive Income for the year ended 31 December 2020

	Note	2020 £ m	2019 £ m
Profit for the financial year		149	86
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations	14	56	(26)
Total comprehensive income for the year		205	60

The notes on pages 26 to 71 form an integral part of these financial statements.

Npower Limited
Balance Sheet as at 31 December 2020

	Note	2020 £ m	2019 £ m
Fixed assets			
Intangible assets	16	76	70
Tangible assets	17	7	8
Right-of-use assets	18	8	12
Investments	19	70	-
		161	90
Current assets			
Stocks	20	-	2
Fair value through other comprehensive income financial assets	22	6	6
Derivative financial assets	26	76	-
Debtors: Amounts falling due within one year	21	1,625	1,883
Cash at bank and in hand		6	20
		1,713	1,911
Derivative financial liabilities	26	-	(71)
Creditors: Amounts falling due within one year	23	(1,310)	(1,500)
Net current assets		403	340
Total assets less current liabilities		564	430
Creditors: Amounts falling due after more than one year			
Non-current lease liabilities	24	(13)	(21)
Provisions for liabilities	27	(105)	(141)
Net assets excluding pension asset/(liability)		446	268
Retirement benefit obligations	14	-	(27)
Net assets		446	241
Capital and reserves			
Called up share capital	29	101	101
Merger reserve		30	30
Fair value through OCI reserve		6	6
Profit and loss account		309	104
Total shareholders' funds		446	241

The notes on pages 26 to 71 form an integral part of these financial statements.

Npower Limited
Balance Sheet as at 31 December 2020 (continued)

The financial statements on pages 21 to 71 were approved by the Board on 2 July 2021 and signed on its behalf by:

....

Mr S Stacey

Director

Npower Limited registered company number: 03653277

The notes on pages 26 to 71 form an integral part of these financial statements.

Npower Limited
Statement of Changes in Equity for the year ended 31 December 2020

	Called up share capital £ m	Merger reserve £ m	FVOCI reserve £ m	Profit and loss account £ m	Total Shareholders' funds £ m
At 1 January 2020	101	30	6	104	241
Profit for the financial year	-	-	-	149	149
Other comprehensive income for the year	-	-	-	56	56
Total comprehensive income for the year	-	-	-	205	205
At 31 December 2020	101	30	6	309	446

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

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

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

FVOCI reserve represents the accumulated change in fair value of financial assets held at fair value through other comprehensive income.

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

The notes on pages 26 to 71 form an integral part of these financial statements.

1 General information

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

The address of its registered office is:
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire
SN5 6PB
United Kingdom

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

2 Accounting policies

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

Basis of preparation
These financial statements were prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101 Reduced Disclosure Framework. 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.

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 Reduced Disclosure Framework:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment'.

- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations.

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

- IFRS 7 (Financial Instruments: Disclosures).

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)

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

- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

- 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

- IAS 7 (Statement of Cash Flows)

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

- Paragraph 17 and 18A of IAS 24 (Related Party Disclosures)

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

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

Where required, equivalent disclosures are given in the group financial statements of E.ON SE. The group financial statements of E.ON SE are available to the public and can be obtained as set out in note 30.

2 Accounting policies (continued)

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will continue to trade for at least the next 12 months. The basis of this assumption depends on the support of Npower Group Limited. Whilst Npower Group Limited had net current liabilities of £295m as at 31 December 2020, it has and continues to benefit from the support and access to funding from the intermediate parent company, innogy SE and the ultimate parent company, E.ON SE. The Directors of Npower Group Limited believe this support will continue to be provided because:

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

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

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

• Npower Group Limited has received a letter of support from innogy SE indicating that it intends to provide such funds as are necessary for Npower Group Limited to trade for at least the next 12 months and up to completion of the winding-down of operations; and

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

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

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

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

2 Accounting policies (continued)

Going concern (continued)

The npower Retail Group's Business Solutions segment is to merge with E.ON's Industrial and Commercial (E.ON I&C) segment. Npower Business Solutions customers will be moved to the Junifer billing platform and the business will then be hived down from Npower Limited to subsidiary company Npower Commercial Gas Limited (NCGL) in 2021. Following the hive down the customers of E.ON I&C will then be transferred into NCGL.

The Company is a 100% owned subsidiary of the E.ON SE group, being a large group, E.ON manages its financial resources with a Group Treasury function. This function allocates financial resources across the Group to meet all financial obligations in a timely fashion.

Future decisions by E.ON SE could lead to some or all of the companies within the npower Retail group ceasing to trade. The Company's existing Home customers were sold to E.ON UK in February 2020, and these customers will migrate to E.ON UK. The Company will continue to serve npower Business Solutions customers in 2021 until all customers within that segment are transferred to NCGL. The Company will continue to as the main employer for the staff of the npower Business Solutions segment and related functional areas.

Given the above position, the financial statements of the Company have been prepared on a going concern basis, and this treatment will be reviewed on an annual basis.

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 E.ON SE. A copy can be obtained from the address as detailed in note 30.

New standards, amendments and IFRS IC interpretations

There are no new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2020 that have had a material impact on the company.

2 Accounting policies (continued)

Turnover

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

Energy supply: the company supplies electricity, gas and related services to domestic, commercial and industrial customers. Turnover is recognised on the basis of energy supplied during the year, recognised over time per performance obligation fulfilled.

Turnover for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (known as unbilled revenue). Unread gas and electricity is estimated using historical consumption patterns, taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued energy income within trade and other receivables. This methodology has been applied consistently for a number of years across a large, homogenous customer base and therefore its highly probable that a significant reversal in the cumulative revenue recognised will not occur.

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

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

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

Interest

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

2 Accounting policies (continued)

Other operating income

Final customer credits are recognised in other operating income in relation to credit balances relating to ex npower Business Solutions customers who are no longer supplied by the Company, with whom we have lost contact and have been 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 npower Retail Group although the percentage varies per business area and is reviewed annually.

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

As a result of the economic impacts of the COVID-19 pandemic the UK government created the Coronavirus Job Retention Scheme (CJRS) effective from 1 March 2020. In accounting for the CJRS, the Company has applied IAS 20: 'Government grants'. Under the Company's accounting policy, grants are recognised when there is reasonable assurance that the Company will comply with the conditions attaching to them, and that the grant will be received. Government grants are recognised in the Profit and Loss account on a systematic basis over the periods in which the related costs that they are intended to compensate are recognised. Grants are presented as other operating income within the Profit and Loss account.

Income arising from the Sale and Purchase Agreement (SPA) between the npower Retail Group and E.ON UK in connection with the transfer of the domestic customer book is recognised in other operating income.

Other operating expense

Impairment losses are recognised in other operating expenses as soon as an assessment indicates an impairment exists.

Expenses related to the Sale and Purchase Agreement (SPA) between the npower Retail Group and E.ON UK are recognised as an other operating expense.

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. 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 - 10 years
Intangible assets under construction	Not amortised

Tangible assets

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

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

Right-of-use assets

The recognition and subsequent measurement of right-of-use assets is disclosed in the Leases accounting policy on page 36.

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

2 Accounting policies (continued)

Investments

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

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

Impairment of non-financial assets

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

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

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

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and call deposits which are readily convertible to cash and are subject to an insignificant risk of changes in value.

2 Accounting policies (continued)

Trade debtors

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

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

Stocks

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

Trade creditors

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

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

Borrowings

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

Interest expense is recognised on the basis of the effective interest method.

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

Provisions

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

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

Called up share capital

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

2 Accounting policies (continued)

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

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

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. As part of the Sale and Purchase Agreement (SPA) the Retail Section of the ESPS was transferred to E.ON UK plc on 1 April 2020, as a result the defined benefit pension scheme was derecognised at that point.

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

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

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Further details are provided in note 14.

2 Accounting policies (continued)

Leases

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

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. See disclosure within note 24.

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

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

2 Accounting policies (continued)

Leases (continued)
Right-of-use assets are measured at cost comprising the following:
- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

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

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

Share based payments
Certain directors and senior management personnel participate in a cash settled share-based payment scheme administered by the ultimate parent company, E.ON SE. The E.ON Performance Plan (EPP) is accounted for in accordance with IFRS 2 "Share-based payment". The liability is measured initially at each reporting date, based on fair value, by applying the Monte Carlo option pricing model, taking into account rights granted and service rendered to date. Costs are recognised in the profit and loss account over the expected vesting period.

Further details regarding the EPP can be found in note 25.

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.

2 Accounting policies (continued)

Derivative financial instruments

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

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

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

Future power and commodity positions are forward traded in line with expected future volume delivery/usage. These trades may be bought and sold as the forward market changes, hence there is a practice of net settlement. In line with IFRS 9 all unrealised trading positions at balance sheet date are recognised at fair value and held on balance sheet as a liability or asset with year on year movement through the Profit and Loss Account. However a portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Company's expected sale, purchase or usage requirements ('own use'), and are not within the scope of IFRS 9.

3 Critical accounting judgements and key sources of estimation uncertainty

Turnover - estimation uncertainty
In accounting for energy revenue and direct costs, the npower Retail Group employs a forecasting process using models to calculate the energy unbilled revenue required at the financial year end. The models are regularly updated with historical actual data downloaded from the financial ledgers which in turn 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.

Unbilled revenue is determined by a bottom-up calculation, using a computer generated simulation. This simulation calculates the estimated unbilled volume and value for each customer within the billing system. A review is performed to ensure that revenue volume (billed and unbilled) in any year is no greater than the industry's view of billable settlement volumes, less an expected revenue leakage element (assessed at 1% for 2020 based on recent trends). When this gap is lower than 1% on a year-to-date basis, revenue is reduced down to this level via a settlement gap adjustment to billed and unbilled revenue. Where the underlying gap is higher than 1%, management apply a conservative approach and make no upward adjustment to revenue. Management continue to review and refine the estimation techniques employed. As at 31 December 2020 the unbilled revenue balance for the Company was being carried at £15.6m (2019: £23.2m).

A 0.5% increase in the settlement gap adjustment percentage used would see revenue decrease by £0.8m (2019: £1.6m decrease). A 0.5% decrease in the settlement gap adjustment percentage used would see revenue increase by £nil (2019: £nil).

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

Valuation of debtors – estimation uncertainty
Debtors represent the most significant exposure to credit risk and are stated after an allowance for impairment. The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables, historical experience and other macro economic pressures such as covid. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

In order to test the sensitivity to changes in the debt profile, the npower Retail Group has considered the impact of further credit deterioration of these balances and determined that if all balances were to remain unpaid for an additional 30 days the impact on the profit and loss account would be £0.2m.

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. For the net carrying amount of the receivables and associated impairment provision see note 20.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Recognition of deferred tax assets - judgement

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

4 Turnover

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

	2020 £ m	2019 £ m
Sales of goods and services	3,190	3,572
Other turnover	12	26
	3,202	3,598

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

	2020 £ m	2019 £ m
Current contract liabilities relating to energy supply contracts	1	-

Revenue recognised in relation to contract liabilities

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

	2020 £ m	2019 £ m
Revenue recognised that was included in the contract liability balance at the beginning of the period.		
Energy supply contracts	-	1

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

5 Other operating income/(expense)

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

	2020 £ m	2019 £ m
Government grants	2	-
SPA other operating income	41	1
Intercompany loan waiver	-	416
	43	417

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

	2020 £ m	2019 £ m
SPA other operating expenses	(123)	-
Impairment of domestic assets	(2)	(233)
	(125)	(233)

Government grants
During 2020, the Company received government assistance under the Coronavirus Job Retention Scheme, effective from 1st March 2020. The total credit recognised within other operating income was £2m and related to employment costs for which the grant was intended to compensate.

Sale and Purchase Agreement (SPA) other operating income
During 2020, the Company sold its domestic customer book to E.ON UK for £41m. The total sale proceeds across all npower Retail Group entities was £258m.

Intercompany loan waiver
During 2019, the intermediate parent company, Npower Group Limited, waived in part a loan to the Company, the credit arising on derecognition was £416m, for further disclosure see note 23.

Sale and Purchase Agreement (SPA) other operating expense
On 1st April 2020, the Company transferred its defined benefit pension obligation to E.ON UK plc. The total cost of the transaction was £123m comprising cash consideration of £89m, derecognition of a pension surplus of £12m and £22m of early retirement deficit repair charge liabilities retained under the agreement. For further disclosure see note 14.

5 Other operating income/(expense) (continued)

Impairment of domestic right of use assets
During 2020, the decision to migrate the domestic customers from Powershop Energy UK Limited to E.ON was followed by the announcement to exit the Colmore Row building. This indicated the carrying amount of the ROU building was in excess of its recoverable amount and an impairment charge of £2m was recognised in the year.

During 2019, the decision to migrate the domestic customers from the npower Retail Group to E.ON was accompanied by an announcement to exit specific buildings leased in connection with the domestic retail business, as well as the vehicle fleet used in support of meter readings and smart meter instillations. This indicated the carrying amount of specific right-of-use assets held in connection with the domestic retail business within the Company were in excess of their recoverable amount. An impairment charge of £14m was recognised in the year and further disclosure is made in note 18.

Impairment of domestic property, plant and equipment
During 2019, the decision to migrate the domestic customers from the npower Retail Group to E.ON indicated the carrying amount of specific items of property, plant and equipment held in connection with the domestic retail business within the Company were in excess of their recoverable amount. An impairment charge of £8m was recognised in the year, reflecting a carrying amount of £16m and a recoverable amount of £8m and further disclosure is made in note 17.

Impairment of domestic computer software
During 2019, the decision to migrate the domestic customers from npower Retail Group systems to E.ON's own systems indicated the carrying amount of the computer software assets held in connection with the domestic retail business were in excess of their recoverable amount. An impairment charge of £204m was recognised by the company, reflecting a carrying amount of £228m and a recoverable amount of £24m and further disclosure is made in note 16.

Impairment of domestic refurbishment
During 2019, the decision to migrate the domestic customers from the npower Retail Group to E.ON indicated the carrying amount of the Trigonos (Swindon) campus refresh held in connection with the domestic retail business within the Company was in excess of its recoverable amount. An impairment charge of £7m was recognised in the year, reflecting a carrying amount of £7m and a recoverable amount of £nil.

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

The recoverable amount of the cash-generating unit is determined, which is defined as the higher of fair value less cost of disposal or value in use. Fair value is the best estimate of the price that an independent third party would pay to purchase the cash-generating unit as of the balance-sheet date. Value in use reflects the present value of the future cash flows which are expected to be generated with the cash-generating unit.

5 Other operating income/(expense) (continued)

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

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

The discount rate used for the npower Retail Group business valuation was determined on the basis of market data using a company valuation model. During the period under review this was 5.50 % after tax (2019: 8.50 %).

For the extrapolation of future cash flows going beyond the detailed planning horizon, a uniform growth rate of 1.0 % was used (2019: 0.0%). The annual cash flow taken as a basis for the years beyond the detailed planning horizon includes the deduction of investment expenses in the amount necessary to maintain business operations. This approach is consistent across the E.ON SE Group as a whole and is disclosed on pages 129 and 130 of the E.ON SE 2020 Annual Report.

As part of the impairment test, an impairment of £nil (2019: £nil) was recognised on the goodwill of the Company. This was based on a carrying amount of £496 million and a value in use of £660 million.

Goodwill impairment is sensitive to changes in assumptions, variations in the assumptions resulted in the following increases/(decreases) to the NPV of the business:

- discount rate percentage: 1% increase £(131)m/(20)%, 1% decrease £207m/31%;
- growth rate percentage: 1% increase £183m/28%, 1% decrease £(116)m/(18)%; and
- gross profit margin by value: 1% increase £29m/4%, 1% decrease £(29)m/(4)%.

6 Unrealised gains/(losses) of financial derivatives

	2020 £ m	2019 £ m
Gain/(loss) on unrealised valuation of commodity derivatives	142	(179)

7 Operating profit

Operating profit is arrived at after charging:

	2020 £ m	2019 £ m
Impairment loss	2	233
Amortisation expense (included in 'Administrative expenses')	1	45
Depreciation expense (included in 'Administrative expenses')	4	8
Other expenses relating to low value assets or variable lease payments	2	2
Expenses relating to short term leases	1	1
Loss on disposal of property, plant and equipment	-	1

Under IFRS 16 payments relating to short term, low value or variable leases are expensed to the income statement. The lease commitments that the Company holds are disclosed in note 24.

Depreciation expense includes £2m (2019: £4m) in relation to right-of-use assets, further disclosure is made in note 18. Impairment losses are disclosed in note 5.

8 Auditors' remuneration

	2020 £ m	2019 £ m
Audit of the financial statements	0.1	0.2
Other fees to auditors		
All other non-audit services	0.1	0.0

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

9 Income from shares in group undertakings

	2020 £ m	2019 £ m
Income from shares in group undertakings	23	-

During the year a dividend of £23.3m was received from Plus Shipping Services Limited prior to its sale to E.ON UK plc.

10 Interest receivable and similar income

	2020 £ m	2019 £ m
Pension interest income - return on assets	2	10

See note 14 for full pensions disclosure. Pensions interest income is disclosed in the Scheme Assets reconciliation as interest income on scheme assets. On 1st April 2020 Npower Limited ceased to be the principal employer for the Retail section of the ESPS (Energy Supply Pension Scheme) and transferred both the plan assets and defined benefit obligation to E.ON UK plc. Npower Limited ceased accruing interest income on the plan assets on that date.

11 Interest payable and similar expenses

	2020 £ m	2019 £ m
Interest on obligations under leases and hire purchase contracts	1	1
Interest payable to group undertakings	5	13
Pension interest expense - defined benefit obligation	2	9
	8	23

See note 14 for full pensions disclosure. Pensions interest expense is disclosed in the Scheme Liabilities reconciliation as interest costs on defined benefit obligation. On 1st April 2020 Npower Limited ceased to be the principal employer for the Retail section of the ESPS and transferred both the plan assets and defined benefit obligation to E.ON UK plc. Npower Limited ceased accruing interest charges on the defined benefit obligation on that date.

During 2019, the npower Retail Group conducted a loan waiver exercise which resulted in a reduction in the loan interest charged during 2020, shown in interest payable to group undertakings.

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

	2020 £ m	2019 £ m
Wages and salaries	44	70
Social security costs	5	6
Other pension costs	4	1
	53	77

Other pension costs reflect the Company's share of pension scheme costs. Full disclosure is made in note 14.

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:

	2020 No.	2019 No.
Sales and administrative staff	1,228	1,728

13 Directors' remuneration

Details of the directors' aggregate remuneration for the year ended 31 December 2020 are set out below together with details of the highest paid director. No compensation for loss of office was paid to the directors (2019: £nil).

The directors of the Company in post as of 2nd January 2020 and throughout the financial year, were also directors of the parent company, Npower Group Limited, consequently the emoluments of these are recorded in Npower Group Limited for 2020. The director of the Company appointed during the year received no remuneration from the Company. This director was remunerated for their services to the npower Retail Group as a whole, including Npower Limited, by other group companies and it is not possible to allocate their emoluments to the Company.

The remuneration is unable to be allocated to individual entities as the npower Retail Group is not managed on a legal entity basis. Details of the directors' aggregate remuneration for the year ended 31 December 2020 are set out in the financial statements of Npower Group Limited together with details of the highest paid director in the npower Retail Group.

	2020 £m	2019 £m
Aggregate emoluments	-	2.1

13 Directors' remuneration (continued)

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

	2020 No.	2019 No.
Received or were entitled to receive shares under long term incentive schemes	-	-
Exercised share options	-	-
Accruing benefits under defined benefit pension scheme	-	3
Accruing benefits under defined contribution pension scheme	-	3

The accrued pension entitlement of the directors under the defined benefit pension scheme at 31 December 2020 was £nil (2019: £164,900).

The total cost of contributions paid into the defined contribution pension scheme for the year ended 31 December 2020 was £nil (2019: £6,000).

The directors, including the highest paid director, were not entitled to receive aggregate cash payments during the year (2019: not entitled) under long-term incentive schemes from the Company. None (2019: none) of the directors received or became entitled to receive shares in E.ON SE under long-term incentive schemes in the financial year. No (2019: no) directors, including the highest paid director, exercised share options for shares in E.ON SE in the financial year.

In respect of the highest paid director:

	2020 £	2019 £
Remuneration	-	396,042
Benefits under long-term incentive schemes (excluding shares)	-	127,873
Defined benefit accrued pension entitlement at the end of the year	-	69,300
Defined benefit accrued lump sum at the end of the year	-	107,900

During 2019, the acquisition of innogy SE by E.ON SE triggered a change in control clause causing the pay-out of the 2016-2018 LTIP.

14 Pension scheme funding

Pension and other schemes

The Company participates in the innogy Group of the Electricity Supply Pension Scheme (ESPS). It is a defined benefit scheme with assets invested in separate trustee-administered funds. The ESPS is divided into sections. In addition to the defined benefit scheme, there was also a defined contribution scheme within the innogy Group of the Electricity Supply Pension Scheme; the Defined Contribution Section of the innogy Group of the ESPS.

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

As part of the Sale and Purchase Agreement (SPA) the Retail Section of the ESPS was transferred to E.ON UK plc on 1 April 2020, as a result the defined benefit pension scheme was derecognised at that point. In consideration for E.ON UK assuming the pension liabilities the Company made a payment of £89 million on the 1st April 2020. The total cost of the transaction was £123m comprising cash consideration of £89m, derecognition of a pension surplus of £12m and £22m of early retirement deficit repair charge liabilities retained under the agreement as disclosed in note 5.

The retail section was accounted for as a defined benefit multi-group scheme under IAS 19R (Employee Benefits) by Npower Limited up to 31st March 2020 and as a defined contribution scheme from 1st April 2020, like all other participating employers in the retail section.

The assets and liabilities of the retail section were transferred to E.ON UK plc, as the principal employer, on 1st April 2020 and the defined benefit scheme is now accounted for as a defined contribution scheme, in line with IAS 19R (Employee Benefits), as the Company, along with the other employers within the group, were unable to identify its share of underlying assets and liabilities on a reasonable and consistent basis.

The Company's cost of contributions (inclusive of contributions towards administrative expenses) during the financial year was £2.1 million (2019: £1.7 million) which excludes additional contributions required to reduce the whole scheme deficit.

14 Pension scheme funding (continued)

Defined contribution pension scheme

Contributions totalling £1.6 million (2019: £2.3 million) were paid into defined contribution sections of the scheme by the Company.

Defined benefit pension schemes

The 2019 triennial valuation of the Retail Section of the Innogy Group of ESPS was signed on 11 March 2020. The Company and the Trustees agreed a deficit repair plan whereby a payment of £3.4m was made in March 2020 and will be made in each subsequent March until March 2029. In addition, new employer contributions for each of the four benefit sections were agreed and implemented from 1 April 2020, a further increase in employer contributions was agreed to take effect on 1 April 2022. The innogy Group of the ESPS is managed by nine trustees who are responsible for the overall management of the pension scheme, including investment of assets, payment of benefits to members and agreement of a funding plan with the Company. E.ON UK plc became the principal employer on the 1st April 2020 and assumed the liability for the deficit repair payments from March 2021 onward.

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

	31 March 2020	**31 December 2019**
	%	**%**
Discount rate	2.7	2.1
Rate of RPI inflation	2.5	2.9
Rate of CPI inflation	1.5	1.9
Rate of salary increases	2.5	2.9
Rate of increase in pensions in payment		
- Main, 60ths and Executive sections	2.4	2.8
- 2005 section	1.9	2.1
Rate of increase in pension in deferment		
- Main section	2.5	2.8
- 2005 section	1.5	2.1

14 Pension scheme funding (continued)

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK.

Illustrative life expectancies are set out in the table below:

	2020	2019
Life expectancy of a male aged 65 (role and salary dependent)	Years	Years
- Current	N/a	19.6 - 21.9
- Future	N/a	21.4 - 23.7
Life expectancy of a female aged 65		
- Current	N/a	22.4
- Future	N/a	24.4
Average duration of liabilities	N/a	26.0

No assumptions presented for 2020 as the pension scheme transferred to E.ON UK plc during the year.

Analysis of assets

The major categories of scheme assets are as follows:

	2020 £ m	2019 £ m
Equities	-	56.5
Government bonds	-	81.8
Corporate bonds	-	51.0
Hedge fund	-	86.5
Other	-	12.2
	-	288.0

14 Pension scheme funding (continued)

Reconciliation of opening liability and closing scheme assets

	2020	2019
Scheme liabilities	**£ m**	**£ m**
Opening defined benefit obligation	314.9	334.7
Current service cost	3.5	13.1
Past service cost	21.7	5.4
Interest cost on defined benefit obligation	1.6	9.3
Contributions by scheme participants	0.7	3.3
Transfers into the Scheme	0.9	4.7
Benefits paid	(1.9)	(22.9)
Transfers out to the innogy section	-	(2.5)
Change in financial assumptions	(63.2)	61.0
Change in demographic assumptions	-	(5.5)
Experience gains on scheme liabilities	(5.8)	(0.2)
Actuarial gains due to change in allocation	-	(85.5)
Transfers out to E.ON UK plc	(272.4)	-
Closing defined benefit obligation	-	314.9

	2020	2019
Scheme assets	**£ m**	**£ m**
Opening fair value of assets	288.0	334.8
Interest income on scheme assets	1.5	9.6
Return on scheme assets, excluding interest income	(12.9)	19.8
Administration expenses	(0.2)	(0.8)
Contributions by employer	8.2	21.2
Contributions by scheme participants	0.7	3.3
Transfers into the Scheme	0.9	4.7
Transfers out to the innogy Section	-	(2.5)
Benefits paid	(1.9)	(22.9)
Actuarial (losses) due to change in allocation	-	(79.2)
Transfers out to E.ON UK plc	(284.3)	-
Fair value at end of year	-	288.0

14 Pension scheme funding (continued)

During the year, the total credit to other comprehensive income of £56.1m was made up of a reduction in liabilities due to change in financial assumptions £63.2m and experience gains on scheme liabilities £5.8m offset by a reduction in the return on scheme assets of £(12.9)m, as split out in the assets and liabilities movement tables above.

15 Tax on profit

Tax charged in the Profit and Loss Account:

	2020 £ m	2019 £ m
Current taxation		
Group relief (receivable)/payable	-	25
Adjustments in respect of previous years	58	-
Total current tax charge	58	25
Deferred taxation		
Origination and reversal of temporary differences	(30)	36
Total tax charge	28	61

The tax assessed on the loss before taxation is lower than the standard rate of corporation tax in the UK (2019: higher than the standard rate of corporation tax in the UK) of 19% (2019: 19%).

The differences are reconciled below:

	2020 £ m	2019 £ m
Profit before taxation	177	147
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	34	28
Expenses not deductible for tax purposes	24	4
Derecognition of deferred tax asset recognised in prior year	(46)	66
Increase in current tax from adjustments to prior periods	58	-
Deferred tax (credit)/expense from unrecognised temporary difference from a prior period	(30)	34
Difference between current and deferred tax rates	-	8
Other tax effects for reconciliation between accounting profit and tax income	(12)	(79)
Total tax charge	28	61

15 Tax on profit (continued)

Tax included in Other Comprehensive Income	**2020 £ m**	**2019 £ m**
Profit recorded in Other Comprehensive Income	-	6
Profit recorded in Other Comprehensive Income multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	-	1
Effect of: Deferred tax not recognised	-	(1)
Total tax charge included in Other Comprehensive Income	-	-

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% . This new law was not substantively enacted on the balance sheet date and has therefore not been reflected in these financial statements.

At the reporting date, a deferred tax asset of £30,000,000 has been recognised in respect of gross temporary differences of £158,000,000 at 19%. We anticipate this amount can be claimed within a reasonable timeframe; £24,000,000 of this was subsequently received on 31 March 2021 with the balance expected before the end of 2021. In addition, Npower Limited had gross unrecognised temporary differences of £424,038,588 (2019: £590,270,034) and unused tax losses of £7,649,682 (2019: nil).

Debtors: Amounts falling due after less than one year

Deferred tax assets

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

	2020 £ m	**2019 £ m**
To be recovered within 12 months		
Deferred tax asset	30	-
	30	-

15 Tax on profit (continued)

Deferred tax movement during the year:

	At 1 January 2020 £ m	Recognised in Profit and Loss Account £ m	At 31 December 2020 £ m
Accelerated tax depreciation	-	-	-
Other items	-	30	30
Deferred tax assets	-	30	30

Deferred tax movement during the prior year:

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

16 Intangible assets

	Goodwill	Computer Software	Intangible Assets Under Construction	Total
	£m	£m	£m	£m
Cost				
At 1 January 2020	156	423	39	618
Additions	-	-	7	7
Transfers	-	3	(3)	-
At 31 December 2020	156	426	43	625
Accumulated amortisation				
At 1 January 2020	109	423	16	548
Amortisation charge	-	1	-	1
At 31 December 2020	109	424	16	549
Carrying amount				
At 31 December 2020	47	2	27	76
At 31 December 2019	47	-	23	70

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

An impairment test is performed annually to determine if there is any need to write down goodwill. This review is updated at the balance sheet date and for post balance sheets events. In this test, the Company is assessed as the single cash-generating unit of the npower Business Solutions business segment. The recoverable amount of the cash-generating unit is determined, which is defined as the higher of fair value less disposal costs or value in use. Fair value is the best estimate of the price that an independent third party would pay to purchase the cash-generating unit as of the balance sheet date. Value in use reflects the present value of the future cash flows which are expected to be generated with the cash-generating unit, which for the Company is specific elements of the npower Business Solutions business segment.

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

During the financial year an impairment charge of £nil was recognised (2019: £nil) and full disclosure has been made in note 5.

Npower Limited
Notes to the Financial Statements for the year ended 31 December 2020 (continued)

17 Tangible assets

	Land and buildings	Furniture, fittings and equipment	Assets under construction	Other property, plant and equipment	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2020	4	20	1	5	30
Additions	-	1	-	-	1
At 31 December 2020	4	21	1	5	31
Accumulated depreciation					
At 1 January 2020	-	19	1	2	22
Charge for the year	-	2	-	-	2
At 31 December 2020	-	21	1	2	24
Carrying amount					
At 31 December 2020	4	-	-	3	7
At 31 December 2019	4	1	-	3	8

During 2019, the decision to migrate the domestic customers from the npower Retail Group to E.ON indicated the carrying amount of specific items of property, plant and equipment held in connection with the domestic retail business within the Company were in excess of their recoverable amount. An impairment charge of £nil (2019: £8m) was recognised. Further disclosure has been made in note 5.

18 Right-of-use assets

	Right of Use Buildings	Total
	£m	£m
Cost		
At 1 January 2020	30	30
Additions	-	-
At 31 December 2020	30	30
Accumulated depreciation		
At 1 January 2020	18	18
Charge for the year	2	2
Impairment	2	2
At 31 December 2020	22	22
Carrying amount		
At 31 December 2020	8	8
At 31 December 2019	12	12

During 2019, the decision to migrate the domestic customers from the npower Retail Group to E.ON indicated the carrying amount of specific right-of-use assets held in connection with the domestic retail business within the Company were in excess of their recoverable amount. An impairment charge of £2m was recognised in the year (2019: £14m), reflecting a carrying amount of £2m and a recoverable amount of £nil. Further disclosure has been made in note 5.

19 Investments

	Subsidiary undertakings £ m
Cost	
Additions	70
At 31 December 2020	70
Carrying amount	
At 31 December 2020	70
At 31 December 2019	-

In December 2020, Npower Limited purchased 70,000,000 shares issued by Npower Commercial Gas Limited (NCGL) at £1 per share. NCGL will become the new home to the combined npower and E.ON UK Industrial and Commercial businesses in 2021.

Details of the subsidiaries as at 31 December 2020 are as follows:

Name of subsidiary	Principal activity	Country of incorporation	Proportion of ownership interest through ordinary shares and voting rights held 2020	2019
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%
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.

20 Stocks

	2020 £ m	2019 £ m
Raw materials and consumables	-	2

21 Debtors: Amounts falling due within one year

	2020 £ m	2019 £ m
Trade debtors	493	644
Amounts owed by group undertakings	625	750
Other debtors	20	-
Loans owed by group undertakings	-	56
Deferred tax asset (note 15)	30	-
Accrued income	358	366
Prepayments	99	67
Total debtors	1,625	1,883

Trade debtors are stated after provisions for impairment of £62 million (2019: £34 million).

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

Other debtors include £0.5 million (2019: £nil) of external tax receivables.

The deferred tax asset was sold in full to Npower Commercial Gas Limited and E.ON Next Energy Limited during 2021.

22 Fair value through other comprehensive income financial assets

	2020 £ m	2019 £ m
Telecom Plus plc shares	6	6

The Company holds 426,989 shares in Telecom Plus plc (2019: 426,989 shares). The investment is recorded at fair value with gains/(losses) recognised through other comprehensive income and as at 31 December 2020 this was £6,123,022 (2019: £6,413,375), based on a closing mid market price of £14.34 per ordinary share (2019: £15.02 per ordinary share).

23 Creditors: Amounts falling due within one year

	2020 £ m	2019 £ m
Loans owed to group undertakings	72	-
Customer payments in advance	45	22
Trade creditors	64	83
Amounts owed to group undertakings	131	577
Other payables	(2)	-
Social security and other taxes	187	103
Accrued expenses	804	710
Lease liabilities	9	5
	1,310	1,500

Loans owed to group undertakings
The loan facility is unsecured and at 31 December 2020 bore interest at a rate of 0.544% (2019: 1.125%). Loans owed to group undertakings also include accrued interest payable on the loan agreement.

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

Amounts owed to group undertakings
Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment and include £50 million of group relief payable (2019: £36 million).

Lease liabilities
Lease liabilities are recognised under IFRS 16, further disclosure is made in note 24.

24 Leases

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

(i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	Note	31 December 2020	31 December 2019
Right-of-use assets		**£m**	**£m**
Buildings	17	8	12
Lease liabilities			
Current	22	9	5
Non-current	23	13	21
		22	26

(ii) Amounts recognised in the income statement

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

	Note	2020	2019
Depreciation charge of right-of-use assets		**£m**	**£m**
Buildings	7	2	4
Impairment charge of right-of-use assets			
Buildings	5	2	14
Expenses in relation to lease liability			
Interest expense	10	1	5
Expenses relating to short term leases	7	1	1
Other expenses relating to low value assets or variable lease payments	7	2	2
		8	26

24 Leases (continued)

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

	2020	2019
	£m	£m
Within one year	5	5
In two to five years	18	19
In over five years	3	7
Total gross payments	26	31
Impact of finance expenses	(4)	(5)
Carrying amount of liability	22	26

Finance expenses represents the discounting to present value of the future cashflows. This has been done at the incremental borrowing rate of 2.19% (2019: 2.49%) as there is no interest rate implicit in the lease agreements.

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

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

25 Share-based payments

During the year the executives and key personnel of the npower Retail Group were invited to participate in the 2020 grant of the E.ON Performance Plan (EPP).

Scheme description
E.ON granted certain executives and key personnel of the npower Retail Group virtual shares under the E.ON Performance Plan (EPP). The vesting period of each tranche is four years. Vesting periods start on January 1 of each year. The 2020 grant of the EPP will vest from 2020 through to 2023, and pay out in 2024. The beneficiary will receive virtual shares in the amount of the agreed target. The conversion into virtual shares will be based on the fair market value on the date when the shares are granted.

25 Share-based payments (continued)

Scheme description (continued)

The fair market value will be determined by applying methods accepted in financial mathematics, taking into account the expected future payout and consequently the volatility and risk associated with the EPP. The number of virtual shares allocated may change during the four-year vesting period, depending on the total shareholder return ("TSR") of E.ON stock compared with the TSR of the companies in a peer group ("relative TSR").

The TSR is the return on E.ON stock, which takes into account the stock price plus the assumption of reinvested dividends, adjusted for changes in capital. The peer group used for relative TSR will be the other companies in E.ON's peer index, the STOXX® Europe 600 Utilities. Only companies included in the STOXX® Europe 600 Utilities for which no takeover offer pursuant to Section 29(1) of the German Securities Acquisition and Takeover Act (WpÜG) or pursuant to an applicable comparable regulation of a foreign legal system was or is effective during the fiscal year in question and in which E.ON does not hold or did not hold a significant portion of shares during the fiscal year in question will be taken into consideration for the tranche allocated in 2020.

During a tranche's vesting period, E.ON's TSR performance is measured once a year in comparison with the companies in the peer group and set for that year. E.ON's TSR performance in a given year determines the final number of one fourth of the virtual shares granted at the beginning of the vesting period. For this purpose, the TSRs of all companies are ranked, and E.ON's relative position is determined based on the percentile reached. If target attainment in a year is below the threshold defined by the Supervisory Board upon allocation, the number of virtual shares is reduced by one fourth. If E.ON's performance is at the upper cap or above, the fourth of the virtual shares allocated for the year in question will increase, but to a maximum of 150 percent. Linear interpolation is used to translate intermediate figures into percentage.

The resulting number of virtual shares at the end of the vesting period is multiplied by the average price of E.ON stock in the final 60 days of the vesting period. This amount is increased by the dividends distributed on E.ON stock during the vesting period and then paid out. The sum of the payouts is capped at 200 percent of the agreed target.

The virtual shares are cancelled if the employment relationship of the beneficiary ends before the end of the term for reasons within the control of the beneficiary. This shall apply in particular in the event of termination by the beneficiary and in the event of extraordinary termination for good cause by the Company. If the employment relationship of the beneficiary is terminated before retirement, through the end of a limited term or for operational reasons before the end of the term, the virtual shares do not expire but are settled at maturity.

If the employment relationship ends before maturity due to death or permanent invalidity, the virtual shares are settled before maturity, whereby in this case the average TSR performance of the fiscal years that have already completely ended is used to calculate the payment amount. The same shall apply in the case of a change in control related to E.ON SE and also if the npower Retail Group leaves the E.ON Group before maturity.

25 Share-based payments (continued)

The following are the base parameters of the tranches of the E.ON Performance Plan active in 2020:

E.ON Performance Plan	
	2020 tranche
Start of term	1 January 2020
Number of conditionally granted performance shares	156,555
Performance target	Total shareholder return (TSR)
Term	4 years
Cap /number of performance shares	150%
Cap /payment amount	200%
Determination of payment	The payment amount is calculated on the basis of the determined number of finally granted performance shares multiplied by the fair value at the grant date.
Form of settlement	Cash settlement
Payment date	2024

Performance shares from EPP	**2020 tranche**
Fair value per share	€8.26

	2020 tranche
Outstanding at 1 January 2020	-
Granted	156,555
Changed (granted/expired)	-
Paid out	-
Outstanding 31 December 2020	**156,555**

During the period under review, expenses for share-based payments totalled £0.3m (2019: £nil).

As of the balance-sheet date, provisions for cash-settled share-based payments amounted to £0.3m (2019: £nil).

26 Derivative financial assets/(liabilities)

At 31 December 2020, derivative financial assets/(liabilities) outstanding related to power trades and swaps. The derivative financial assets mature over the period 2021 to 2025.

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

	2020 £ m	2019 £ m
Commodity derivatives	76	(66)
Embedded derivatives	-	(5)
	76	(71)

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

During 2020, the Company novated a contract with a meter asset provider to support the rollout of second generation smart meters to E.ON Energy Services Limited. The contract contained an embedded interest rate swap which had been disclosed as a Fair Value Through Profit and Loss (FVTPL) financial liability under IFRS 9. The credit through the Profit and Loss account in relation to the derecognition of the unrealised value of the swap for 2020 was £5m (2019: £5m charge).

26 Derivative financial assets/(liabilities) (continued)

Financial instruments by category

2020 **Assets as per balance sheet**	Assets at amortised cost £ m	Assets at fair value through OCI £ m	Assets at fair value through profit & loss £ m	Total £ m
Derivative commodity instruments	-	-	76	76
Fair value through other comprehensive income financial assets	-	6	-	6
Trade & other receivables excluding prepayments	1,118	-	-	1,118
Total	1,118	6	76	1,200

2020 **Liabilities as per balance sheet**	Other financial liabilities at amortised cost £ m	Total £ m
Trade and other payables excluding non-financial liabilities	1,238	1,238

2019 **Assets as per balance sheet**	Assets at amortised cost £ m	Assets at fair value through OCI £ m	Assets at fair value through profit & loss £m	Total £ m
Fair value through other comprehensive income financial assets	-	6	-	6
Trade & other receivables excluding prepayments	1,450	-	-	1,450
Total	1,450	6	-	1,456

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

26 Derivative financial assets/(liabilities) (continued)

Valuation methods and assumptions

The following overview presents the main parameters for the measurement of financial instruments recognised at fair value. In accordance with IFRS 7, the individual levels are defined as follows:
Level 1: Measurement using (unadjusted) prices of identical financial instruments quoted on active markets;
Level 2: Measurement on the basis of input parameters which are not the quoted prices from level 1, but which can be observed directly or indirectly;
Level 3: Measurement on the basis of models using input parameters which cannot be observed on the market.

	Level 1 2020 £ m	Level 2 2020 £ m	Level 3 2020 £ m	Total £ m
Commodity derivatives	-	76	-	76
Total	-	76	-	76

	Level 1 2019 £ m	Level 2 2019 £ m	Level 3 2019 £ m	Total £ m
Embedded derivative	-	(5)	-	(5)
Commodity derivatives	-	(66)	-	(66)
Total	-	(71)	-	(71)

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

	Assets at fair value through profit and loss 2020 £ m	Liabilities at fair value through profit and loss 2019 £ m
Due within one year	51	(43)
Due in more than one year and less than two years	18	(24)
Due in more than two years and less than five years	7	(4)
Total	76	(71)

26 Derivative financial assets/(liabilities) (continued)

Financial risk management

a) Commodity price risk
The Company is exposed to commodity price risk as a result of its operations. The risk is actively managed through the application of appropriate techniques and methodologies in accordance with the Risk Management Policy of E.ON 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), and the reporting of unhedged positions. The hedge policies determine the timing of the purchase of physical forward contracts for power and gas to cover customers' supply requirements. Financial contracts may also be 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.

b) 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, the Counterparty Risk Management function of E.ON SE is required to sign off the account prior to acceptance.

None of the derivative financial assets are past due or impaired as at 31 December 2020.

c) 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.

26 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 2020	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	111	(35)	76
Total	111	(35)	76

As at 31 December 2019	Gross amounts of recognised financial assets £ m	Gross amounts of financial liabilities set off in the balance sheet £ m	Net amounts of financial assets presented in the balance sheet £ m
Commodity derivatives	65	(65)	-
Total	65	(65)	-

(b) Financial liabilities

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

As at 31 December 2020	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	(35)	35	-
Total	(35)	35	-

As at 31 December 2019	Gross amounts of recognised financial liabilities £ m	Gross amounts of financial assets set off in the balance sheet £ m	Net amounts of financial liabilities presented in the balance sheet £ m
Commodity derivatives	(131)	65	(66)
Total	(131)	65	(66)

27 Provisions for liabilities

	Liabilities and claims £ m	Restructuring £ m	Other provisions £ m	Total £ m
At 1 January 2020	(13)	(126)	(2)	(141)
Additional provisions	-	(1)	(1)	(2)
Provisions used	-	29	1	30
Unused provision reversed	7	1	-	8
At 31 December 2020	(6)	(97)	(2)	(105)

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

The restructuring provision represents the provision for redundancy and related costs in respect of business re-organisation which was announced publicly in November 2019.

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

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

28 Contingent liabilities

In the normal course of business the Company has provided parent company guarantees on behalf of its subsidiaries. As at 31 December 2020 the total value of these guarantees amounted to £6 million (2019: £6 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.

29 Called up share capital

Allotted, called up and fully paid shares

	2020		2019	
	No.	**£**	**No.**	**£**
Ordinary shares of £1 each	101,000,001	101,000,001	101,000,001	101,000,001

30 Controlling parties

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

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

31 Non adjusting events after the financial period

On 1st March 2021 the Company sold its 100% shareholding in Plus Shipping Services Limited to E.ON UK plc for £518k, the book value of the company as of that date.

In June 2021, a business transfer agreement was concluded that transferred the operations of the npower Business Solutions segment into Npower Commercial Gas Limited.