

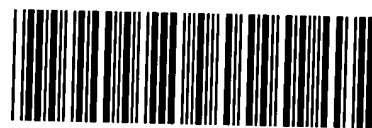
Registration number: 3653277

# **Npower Limited**

Annual Report and Financial Statements

for the Year Ended 31 December 2016

THURSDAY



\*A6A3K44Q\*

A10

06/07/2017

#46

COMPANIES HOUSE

## **Npower Limited**

### **Contents**

	<b>Page(s)</b>
Strategic Report for the year ended 31 December 2016	1 - 5
Directors' Report for the year ended 31 December 2016	6 - 9
Independent Auditors' Report to the members of Npower Limited	10 - 11
Profit and Loss Account for the year ended 31 December 2016	12
Statement of Comprehensive Income for the year ended 31 December 2016	13
Balance Sheet as at 31 December 2016	14
Statement of Changes in Equity for the year ended 31 December 2016	15
Notes to the Financial Statements for the year ended 31 December 2016	16 - 49

## Npower Limited

### Strategic Report for the year ended 31 December 2016

The directors present their Strategic Report on Npower Limited ("the Company") for the year ended 31 December 2016.

#### Business review and future developments

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

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

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

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

The underlying operating loss for this group of companies was £147 million in 2016 (2015: loss of £200 million).

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

## **Npower Limited**

### **Strategic Report for the year ended 31 December 2016 (continued)**

#### **General**

Following RWE's announcement in December 2015, the Group's renewables, grid and retail operations were pooled within a new subsidiary, innogy SE, which was successfully listed on the Frankfurt Stock Exchange on 7 October 2016 as described in the long term viability statement on page 7. The Npower Group comprises the UK retail operations and forms part of the new innogy SE group.

The recovery plan, launched in 2015 with a major consultancy firm, has progressed well through the first full year since its commencement, particularly in terms of improvements to operational processes and lower operational costs realised in 2016.

Despite the progress against the recovery plan, financially the Npower Group experienced another challenging year with continuing competition across the market segments and customers becoming more engaged with the market, switching to lower priced products and better managing their consumption.

Further details of the performance in 2016, including progress against the recovery plan, and the outlook for 2017 are included in the segmental reviews below.

## **Npower Limited**

### **Strategic Report for the year ended 31 December 2016 (continued)**

#### **Domestic**

2016 saw the segment embark upon a recovery plan to address root causes of core system issues, fundamentally fix the operational processes and return the business to profitability. The financial results in 2016 resulted in a loss, although considerably better than the reported loss in 2015.

Competition in the Domestic energy market intensified in 2016 with the continued growth of new entrants, aggressive pricing by smaller suppliers and heightened media, regulatory and political attention. This is reflective in the 7.7m market switches in 2016, equating to 16% of the market and a 26% increase from 2015, although npower performed much better than its mainstream big 5 competitors in respect of 2016 customer losses.

An increasing proportion of customers have moved to short term, fixed price products with nearly half of all our customers on non-standard products at the end of 2016. Further investment in our digital platform saw over half of our customer base now registered for online digital services and we also launched a new concept for energy purchase and management via our Powershop brand.

Continued investment in our customer services and core systems resulted in a significant reduction in complaints compared to the big 6 average. Our historical poor service was investigated by Ofgem in 2015 resulting in a settlement package, and a commitment to deliver significant improvements across a series of key operational measures by mid-2016. We are pleased to announce that all commitments made to Ofgem were delivered on time and within budget.

In terms of CSAT (customer satisfaction score), we were recognised as the most improved supplier year on year and recorded our highest ever CSAT score in December 2016 of 69%. Both our CSAT progression and relative outperformance on complaints are encouraging early signs of the customer service recovery.

Looking into the year ahead the sector in which the Domestic business operates remains an extremely challenging one with the level of competition driving increased churn and putting pressure on margins, not to mention the tough regulatory environment and the elevated media and political attention.

The Competition and Markets Authority ("CMA") review outcomes for Prepayment price caps and disengaged standard customer interventions will provide further industry challenges as will any further government or regulatory intervention on pricing caps or other limitations.

Despite these challenges we remain confident in our ability to execute the recovery plan, further improve our systems, processes and product offerings to enhance customer experience, reduce costs and deliver market related returns to the shareholder.

## **Npower Limited**

### **Strategic Report for the year ended 31 December 2016 (continued)**

#### **npower Business**

Competition remained fierce in the market served by npower Business during 2016, with new entrants and some larger suppliers continuing to pursue aggressive acquisition policies. The impact of a more engaged customer base within this market and the end of auto-rollover enacted by larger suppliers in 2014 has resulted in a significant increase in switching rates.

2016 saw the transfer to npower Business Solutions of profile class 5-8 customers necessitated by regulatory requirements for half hourly settlement.

The combined effects of these issues has meant that npower Business' customer portfolio has reduced by c8% from the beginning of 2016. This is despite a largely successful acquisition strategy, driven by the growth in the number of third party intermediaries the business engages with following the implementation of our broker portal in 2015. Customers are, on average, consuming less energy and seeking lower priced deals further impacting gross margin.

The business has fully embedded the npower recovery plan into its operation, and has delivered improvements in processes, operating costs and debt during the year, despite the operational requirements placed on the business by the increased customer churn. Nonetheless, the decline in gross margin during the year has resulted in a significant operating loss.

The end of the year saw the commencement of significant planning work towards the migration of npower Business customers to the Domestic SAP platform. This phased migration will begin in 2017 and be conducted until mid-2018, and will provide the business with a sustainable and cost effective operating platform from which to serve and grow its customer base. As a result of the migration these customers will transition from Npower Direct Limited to Npower Northern Limited. The accounts for Npower Direct Limited continue to be prepared on a going concern basis as the Company will continue to trade until the migration is completed.

#### **npower Business Solutions**

2016 has been a challenging year with supply margins being squeezed through competitive price pressure and a growing number of market entrants.

npower Business Solutions has maintained 2nd position in the electricity market by volume. Whilst volume decreased during 2016, this trend is market wide as customers better manage their energy consumption.

Gas supply volumes have continued to increase (0.4 TWh - 12%), in a market where gas supply volume is stable, as a result of changes in our customer mix to higher volume, lower margin business.

Following the government removal of Climate Change Levy Exemption certificates ("LECs") in August 2015, we introduced a replacement renewable product utilising Renewable Energy Guarantee of Origin ("REGO") certificates, ensuring we could match customers' consumption with the equivalent amount of renewable energy purchases.

2016 has also been a turbulent year for our customers in a very volatile economic climate with a high number of insolvencies. We had sufficient controls in place to manage the risk or were able to cover the outstanding debt by implementation of industry leading debt strategies across our portfolio, reducing our exposure.

Focus continues on Energy Solutions with the integration of RUMM Limited (acquired in March 2015) and the launch of Energy HQ. We established how to remotely manage the power of our own estate through Energy HQ, enabling us to switch power sources as and when we need them. This was part of our own energy saving journey earning us the right to demonstrate to customers how they could do the same.

## **Npower Limited**

### **Strategic Report for the year ended 31 December 2016 (continued)**

#### **Position of the business**

The Company's loss for the year ended 31 December 2016 was £4 million (2015: loss of £39 million). The net assets of the Company at 31 December 2016 were £188 million (2015: £93 million).

#### **Principal risks and uncertainties**

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

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

The key business risks affecting the Retail Group are the retention rates of existing customers and the proportion of its market share. The level of volatility in electricity wholesale prices and the overhanging threat of a Standard Variable Tariff price cap through intervention by the UK government are the main uncertainties faced. Furthermore, the Company has a number of operational risks as part of its end-to-end processes. Detailed discussions of these risks and opportunities, in the context of the innogy SE Group as a whole are provided on pages 93 through 101 of the innogy SE 2016 Annual Report.

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

#### **Key performance indicators (KPIs)**

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

Approved by the Board on 30 June 2017 and signed on its behalf by:



Mr P Sharman  
Director

## **Npower Limited**

### **Directors' Report for the year ended 31 December 2016**

The directors present their report on the Company and the audited financial statements for the year ended 31 December 2016.

#### **Principal activities**

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

During the year the Company received an increase in investment of £100m from its parent company, Npower Group plc, and in return issued 100 million shares at par value of £1 each.

#### **Dividends**

The directors do not recommend the payment of a dividend (2015: £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 M Miklas (resigned 30 June 2016)

Mr C Pilgrim

Mrs J Eaton

Mr J Stamp (resigned 31 March 2017)

Mr J Scagell

Mr S Stacey

Mr P Sharman (appointed 1 July 2016)

The following director was appointed after the year end:

Mr D Titterton (appointed 1 January 2017)

#### **Directors' indemnity**

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

#### **Future developments**

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

#### **Going concern**

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

#### **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.



## **Npower Limited**

### **Directors' Report for the year ended 31 December 2016 (continued)**

#### **Long term viability statement**

The Company is a 100% owned subsidiary of the innogy SE group. The innogy SE group is majority owned by the RWE group following a successful IPO. Shares in innogy SE began trading on the Frankfurt Stock Exchange on 7 October 2016. innogy SE had a market capitalisation of €20 billion at the time of its listing and employs around 2,800 employees. innogy SE supplies approximately 16 million customers with electricity and around 7 million with gas in eleven European markets and is one of the largest suppliers of electricity and gas in Germany, the Netherlands and the United Kingdom. It also has a leading position in at least one of these products in several other European markets. In the year 2016, the innogy SE group recorded €11.4 billion in revenue, and had an income after tax of approximately €1.6 billion. Being a large group, innogy SE manages its financial resources with a Group Treasury function. This function allocates financial resources across the Group to meet all financial obligations in a timely fashion.

The Company belongs to the Npower Retail Group, part of the innogy SE group of companies, and as such is funded by its parent on an ongoing basis through a cash management agreement providing access to multi-million pound funding on a daily basis as required to meet its daily working capital requirements.

The directors consider that the innogy SE group has committed itself to the ongoing supply of electricity and gas in the UK for the medium to long term and will financially support the Npower Retail Group to achieve the objective of being a leading supplier in this market.

#### **Employees**

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

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

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

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

#### **Equal opportunities and diversity**

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

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

## **Npower Limited**

### **Directors' Report for the year ended 31 December 2016 (continued)**

#### **Employee share plans**

The Retail Group was part of a savings related share option plan for the benefit of employees in the UK. Npower Limited was responsible for the operation of the 2013 tranche. The Retail Group did not operate a new tranche of the scheme subsequently. The 2013 scheme matured on 1 September 2016 and the last date of exercise was 28 February 2017. At 31 December 2016 there were no participants in the scheme (2015: 11% of staff were participating in the scheme, saving between £5 and £125 per month, with the option to purchase RWE AG shares at a 20% discount at the end of a three year savings period).

#### **Financial risk management**

##### ***Capital management***

The Company's objectives, policies and processes for managing capital are consistent with those of the innogy SE Group. Detailed discussions of these, in the context of the innogy SE Group as a whole, are provided on pages 125 through 126 of the innogy SE 2016 Annual Report.

##### ***Credit risk***

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

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

##### ***Liquidity risk***

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

##### ***Commodity price risk***

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

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

##### ***Securities price risk***

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

##### ***Interest rate cash flow risk***

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

**Npower Limited**  
**Directors' Report for the year ended 31 December 2016 (continued)**

**Financial risk management (continued)**

***General risk management***

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

**Statement of directors' responsibilities in respect of the financial statements**

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

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

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

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

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

**Statement of disclosure of information to the auditors**

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

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

Approved by the Board on 30 June 2017 and signed on its behalf by:



Mr P Sharman  
Director

## **Npower Limited**

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

#### **Report on the financial statements**

##### **Our opinion**

In our opinion, Npower Limited's financial statements ("the financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### **What we have audited**

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Profit and Loss Account and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

##### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

##### **Other matters on which we are required to report by exception**

###### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## **Npower Limited**

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

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

#### **Responsibilities for the financial statements and the audit**

##### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

##### **What an audit of financial statements involves**

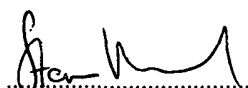
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



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

3 July 2017

**Npower Limited**  
**Profit and Loss Account for the year ended 31 December 2016**

	Note	2016 £ m	2015 £ m
Turnover	4	3,365	3,665
Cost of sales		<u>(3,110)</u>	<u>(3,352)</u>
Gross profit		255	313
Administrative expenses		(314)	(342)
Other operating income	5	2	3
Unrealised gains of financial derivatives	6	<u>90</u>	<u>25</u>
Operating profit/(loss)	7	<u>33</u>	<u>(1)</u>
Interest receivable and similar income	9	11	6
Interest payable and similar expenses	10	<u>(40)</u>	<u>(49)</u>
Profit/(loss) before taxation		4	(44)
Tax on profit/(loss)	14	<u>(8)</u>	<u>5</u>
Loss for the financial year		<u><u>(4)</u></u>	<u><u>(39)</u></u>

The above results were derived from continuing operations.

The notes on pages 16 to 49 form an integral part of these financial statements.

**Npower Limited****Statement of Comprehensive Income for the year ended 31 December 2016**

	<b>2016</b>	<b>2015</b>
	<b>£ m</b>	<b>£ m</b>
Loss for the financial year	(4)	(39)
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Remeasurements of post employment benefit obligations	<u>(1)</u>	<u>-</u>
Total comprehensive expense for the year	<u><u>(5)</u></u>	<u><u>(39)</u></u>

The notes on pages 16 to 49 form an integral part of these financial statements.

**Npower Limited**  
**Balance Sheet as at 31 December 2016**

	Note	2016 £ m	2015 £ m
<b>Fixed assets</b>			
Intangible assets	15	417	406
Tangible assets	16	18	13
Investments	17	33	33
		<u>468</u>	<u>452</u>
<b>Current assets</b>			
Stocks	18	1	-
Debtors: Amounts falling due within one year	19	1,793	1,657
Debtors: Amounts falling due after more than one year	14	34	44
Available for sale financial assets	20	5	5
Derivative financial assets	24	28	-
Cash at bank and in hand		44	30
		<u>1,905</u>	<u>1,736</u>
Creditors: Amounts falling due within one year	21	(2,166)	(2,012)
Derivative financial liabilities	24	-	(65)
Net current liabilities		<u>(261)</u>	<u>(341)</u>
Total assets less current liabilities		207	111
Provisions for liabilities	25	(19)	(18)
Net assets		<u>188</u>	<u>93</u>
<b>Capital and reserves</b>			
Called up share capital	27	101	1
Merger reserve		30	30
Available for sale reserve		5	5
Profit and loss account		52	57
Total shareholders' funds		<u>188</u>	<u>93</u>

The financial statements on pages 12 to 49 were approved by the Board on 30 June 2017 and signed on its behalf by:



Mr P Sharman

Director

Npower Limited registered company number: 3653277

The notes on pages 16 to 49 form an integral part of these financial statements.



**Npower Limited****Statement of Changes in Equity for the year ended 31 December 2016**

	<b>Called up share capital £ m</b>	<b>Merger reserve £ m</b>	<b>Available for sale reserve £ m</b>	<b>Profit and loss account £ m</b>	<b>Total Shareholders' funds £ m</b>
At 1 January 2016	<u>1</u>	<u>30</u>	<u>5</u>	<u>57</u>	<u>93</u>
Loss for the financial year	-	-	-	(4)	(4)
Other comprehensive expense for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>(1)</u>
Total comprehensive expense for the year	-	-	-	(5)	(5)
New share capital subscribed	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>
At 31 December 2016	<u><u>101</u></u>	<u><u>30</u></u>	<u><u>5</u></u>	<u><u>52</u></u>	<u><u>188</u></u>

	<b>Called up share capital £ m</b>	<b>Merger reserve £ m</b>	<b>Available for sale reserve £ m</b>	<b>Profit and loss account £ m</b>	<b>Total Shareholders' funds £ m</b>
At 1 January 2015	<u>1</u>	<u>30</u>	<u>5</u>	<u>96</u>	<u>132</u>
Loss for the financial year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(39)</u>	<u>(39)</u>
Total comprehensive expense for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(39)</u>	<u>(39)</u>
At 31 December 2015	<u><u>1</u></u>	<u><u>30</u></u>	<u><u>5</u></u>	<u><u>57</u></u>	<u><u>93</u></u>

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

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

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

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

Loss for the financial year includes amortisation of intangible assets (note 15).

The notes on pages 16 to 49 form an integral part of these financial statements.

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016**

#### **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 Financial Reporting Standard 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 (as applicable), and in accordance with the Companies Act 2006.

##### **Summary of disclosure exemptions**

- Paragraph 33(c) of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)
- IFRS 7 (Financial Instruments: Disclosures)
- Paragraph 38 of IAS 1 (Presentation of Financial Statements) to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1 (Presentation of Financial Statements)
  - (ii) paragraph 73(e) of IAS 16 (Property, Plant and Equipment)
  - (iii) paragraph 118(e) of IAS 38 Intangible Assets)
- The following paragraphs of IAS 1 (Presentation of Financial Statements):
  - (i) 10(d)
  - (ii) 10(f)
  - (iii) 16
  - (iv) 38A
  - (v) 38B-D
  - (vi) 40A-D
  - (vii) 111
  - (viii) 134-136

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **2 Accounting policies (continued)**

##### **Summary of disclosure exemptions (continued)**

- IAS 7 (Statement of Cash Flows)

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

- Paragraph 17 of IAS 24 (Related Party Disclosures)

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

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

Where required, equivalent disclosures are given in the group financial statements of innogy SE. The group financial statements of innogy SE are available to the public and can be obtained as set out in note 28.

##### **Going concern**

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

##### **Exemption from preparing group financial statements**

The financial statements contain information about Npower Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of innogy SE. A copy can be obtained from the address as detailed in note 28.

##### **New standards, amendments and IFRIC interpretations**

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2016, have had a material impact on the company.

##### **Turnover**

Turnover comprises the value of sales of goods and services, excluding VAT and other indirect taxes, in the normal course of business.

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

##### **Interest**

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

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **2 Accounting policies (continued)**

##### **Other operating income**

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

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

##### **Taxation**

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

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

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

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

##### **Intangible assets**

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost. Prior to the Company's transition to FRS 101 goodwill was amortised in equal instalments over its useful economic life, normally not exceeding 20 years. Since 1 January 2015 the carrying value of goodwill is no longer subject to amortisation but is instead tested for impairment annually.

##### **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:

<b>Asset class</b>	<b>Amortisation method and rate</b>
Goodwill	Not amortised
Computer software	5 years
Intangible assets under construction	Not amortised

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **2 Accounting policies (continued)**

##### **Tangible assets**

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

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

##### **Depreciation**

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

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

##### **Investments**

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

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

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **2 Accounting policies (continued)**

##### **Impairment of non-financial assets**

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

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

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

- Future market conditions and prices are based on detailed analysis and predictions prepared by innogy economists based on the specific circumstances of the UK retail energy market
- Cash flow projections are based on management's approved long term business plan which incorporate the predictions of future market conditions above
- The cash flows obtained are discounted at a rate estimated to be appropriate for the retail energy business in the UK

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

##### **Cash and cash equivalents**

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

##### **Trade debtors**

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

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

##### **Stocks**

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

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **2 Accounting policies (continued)**

##### **Trade creditors**

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

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

##### **Borrowings**

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

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

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

##### **Provisions**

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

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

##### **Called up share capital**

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

##### **Defined contribution pension obligation**

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

##### **Defined benefit pension obligation**

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

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **2 Accounting policies (continued)**

##### **Operating leases**

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

##### **Share based payments**

The group operates an equity-settled, share-based compensation plan, under which the group receives services from employees as consideration for equity instruments (options) of the ultimate parent company. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium of the ultimate parent company when the options are exercised and an intercompany liability to the parent company is recognised.

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

##### **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. The Company does not recognise a contingent liability but discloses its existence in the financial statements.



## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **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 IAS39 all unrealised trading positions at balance sheet date are recognised at fair value and held on balance sheet as a liability or asset with year on year movement through the Profit and Loss Account. However a portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Company's expected sale, purchase or usage requirements ('own use'), and are not within the scope of IAS 39.

#### **3 Critical accounting judgements and key sources of estimation uncertainty**

##### **Turnover**

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

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

#### **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:

	<b>2016</b>	<b>2015</b>
	<b>£ m</b>	<b>£ m</b>
Sales of goods and services	3,288	3,575
Other turnover	77	90
	<u>3,365</u>	<u>3,665</u>

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2016 (continued)****5 Other operating income**

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

	2016 £ m	2015 £ m
Final customer credits	<u>2</u>	<u>3</u>

Included in the final customer credits are credit balances relating to customers who are no longer supplied by the Company. Despite carrying out rigorous procedures over 12 months the Company has been unable to trace these customers and consequently these amounts have been written back to the Profit and Loss Account in accordance with the accounting policy note explained in note 2. A percentage is retained as a provision to meet any obligation that may arise from ex npower Business and npower Business Solutions customers re-establishing contact with the Company as displayed in note 25.

**6 Unrealised gains/(losses) of financial derivatives**

	2016 £ m	2015 £ m
Gain on unrealised valuation of commodity derivatives	90	27
Loss on unrealised valuation of weather derivatives	<u>-</u>	<u>(2)</u>
	<u>90</u>	<u>25</u>

**7 Operating loss**

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

	2016 £ m	2015 £ m
Depreciation expense (included in 'Administrative expenses')	4	2
Amortisation expense (included in 'Administrative expenses')	52	134
Operating lease expense - property	3	3
Operating lease expense - other	1	2
Loss/(profit) on disposal of property, plant and equipment	<u>1</u>	<u>(9)</u>

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2016 (continued)****8 Auditors' remuneration**

	2016	2015
	£ m	£ m
Audit of the financial statements	0.3	0.3
<b>Other fees to auditors</b>		
All other non-audit services	<u>0.1</u>	<u>0.4</u>

**9 Interest receivable and similar income**

	2016	2015
	£ m	£ m
Interest income on bank deposits	-	1
Interest receivable from group undertakings	<u>11</u>	<u>5</u>
	<u>11</u>	<u>6</u>

**10 Interest payable and similar expenses**

	2016	2015
	£ m	£ m
Interest on bank overdrafts and borrowings	3	3
Other finance costs	2	-
Interest payable to group undertakings	<u>35</u>	<u>46</u>
	<u>40</u>	<u>49</u>

**11 Staff costs**

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

	2016	2015
	£ m	£ m
Wages and salaries	70	75
Social security costs	7	7
Other pension costs	26	28
Share-based payment expense/(credit)	<u>-</u>	<u>(1)</u>
	<u>103</u>	<u>109</u>

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2016 (continued)****11 Staff costs (continued)**

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:

	2016 No.	2015 No.
Sales and administrative staff	<u>2,371</u>	<u>2,546</u>

**12 Directors' remuneration**

Details of the directors' aggregate remuneration for the year ended 31 December 2016 are set out below together with details of the highest paid director. In addition, compensation for loss of office of £nil was paid to the directors (2015: £0.5 million).

	2016 £m	2015 £m
Aggregate emoluments	<u>1.9</u>	<u>1.8</u>

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

	2016 No.	2015 No.
Received or were entitled to receive shares under long term incentive schemes	-	-
Exercised share options	-	-
Accruing benefits under defined benefit pension scheme	3	5
Accruing benefits under defined contribution pension scheme	<u>4</u>	<u>4</u>

The accrued pension entitlement of the directors under the defined benefit pension scheme at 31 December 2016 was £135,200 (2015: £165,200).

The total cost of contributions paid into the defined contribution pension scheme for the year ended 31 December 2016 was £83,229 (2015: £85,375).

The directors, including the highest paid director, were not entitled to receive aggregate cash payments during the year (2015: not entitled) under long-term incentive schemes from the Company. None (2015: none) of the directors received or became entitled to receive shares in RWE AG under long-term incentive schemes in the financial year. No (2015: no) directors, including the highest paid director, exercised share options for shares in RWE AG in the financial year.

In respect of the highest paid director:

	2016 £	2015 £
Total emoluments	376,649	324,240
Defined benefit accrued pension entitlement at the end of the year	66,500	62,200
Defined benefit accrued lump sum at the end of the year	95,800	89,700

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **13 Pension scheme funding**

##### **Pension and other schemes**

Throughout the whole of 2016, the majority of pensions were funded through the defined benefit scheme within the RWE Npower Group of the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS). It is a defined benefit scheme with assets invested in separate trustee-administered funds. The ESPS is divided into sections. In addition to the defined benefit scheme, there was also a defined contribution scheme within the RWE Npower Group of the Electricity Supply Pension Scheme; the Defined Contribution Section of the RWE Npower Group of the ESPS. During 2009, the decision was taken to close the defined benefit scheme described above to new entrants. New employees are now only able to participate in a defined contribution scheme. RWE Generation UK Holdings plc (formerly RWE Npower Holdings plc) was the sponsoring entity for the RWE Npower Group of the ESPS throughout 2016.

##### **Pension scheme restructuring**

In November 2015 RWE AG announced that the group would split into two separate divisions; Holdco division comprising the following legal entities :- RWE Generation UK Holdings plc (formerly RWE Npower Holdings plc) and its subsidiaries, RWE Supply & Trading GmbH and RWE Technology UK Limited and Innogy division comprising the following legal entities :- Innogy Renewables UK Holdings Limited (formerly RWE Innogy UK Holdings Limited) and its subsidiaries, Npower Group plc (formerly RWE Npower Group plc) and its subsidiaries and Innogy Business Services UK Limited. One of the key elements of the separation for RWE in the UK was to split the UK pension scheme (its associated liabilities and assets) into HoldCo & Innogy.

After lengthy discussions with the pension trustees, legal, pension and accounting advisors it was decided that the existing pension scheme should be split into two new sections to reflect the future business structure.

On 29 July 2016 respective legal entities in the UK signed a Memorandum of Understanding (MoU) and at the same time created two new scheme sections for Renewables UK (Innogy) and Generation UK (HoldCo).

The MoU sets out the terms and conditions in respect of creating two new pension scheme sections for Innogy and HoldCo, how to apportion assets and liabilities between sections and how to wind up the existing arrangement.

The MoU contains relevant agreed form documents to complete the setup of the pension structure. Key agreements contained in the MoU include:

- The MoU itself signed 29 July
- Sectionalisation Deed signed 29 July, effective from 31 July 2016

The Sectionalisation Deed sets out the terms of the creation of the two new sections. Governed under Schedule 7 of the Trust Deed, the Principal Employer (RWE Generation UK Holdings plc) (formerly RWE Npower Holdings plc) considered it appropriate to divide the Existing Group into two sections, effective from 31 July 2016:

1. The HoldCo Section; and
2. The Innogy Section.

The principal employer for both the HoldCo section and the Innogy section remained RWE Generation UK Holdings plc (formerly RWE Npower Holdings plc) until 31 December 2016.

The principal employer of each section is responsible to ensure that the obligation of that section is met and to ensure that the relevant contributions of the other participating employers within the section are paid.

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **13 Pension scheme funding (continued)**

The sectionalisation took place on 31 July 2016 at which point asset and liability balances were transferred to the respective section relating to RWE Generation UK plc and Innogy Renewables UK Limited (formerly RWE Innogy UK Limited).

The restructuring of the RWE AG group was completed on 1 September 2016 and the new company structure became operational on this date.

#### ***Defined contribution pension scheme***

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

Contributions totalling £4 million (2015 : £4 million) were paid into defined contribution sections of the scheme by the Company.

#### ***Defined benefit pension schemes***

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

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

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

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **13 Pension scheme funding (continued)**

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

After 31 July, the Innogy section was accounted for as a defined benefit multi-group scheme under IAS 19R (Employee Benefits) by Innogy Renewables UK Limited and as a defined contribution scheme by all other participating employers in the scheme. The scheme was accounted for as a defined contribution scheme by Npower Limited for the whole of 2016.

During the year ended 31 December 2016, Npower Limited contributed to the four defined benefit sections of the ESPS at a weighted average rate of 16% of members' pensionable earnings. Administration expenses for the scheme became payable as a lump sum rather than as a percentage of pensionable salaries in 2015.

The scheme was most recently valued on 31 March 2016. At that date the deficit of the whole scheme was £566m giving a funding level of 90%, of which the deficit of the Innogy section was £378m, giving a funding level of 90%. Independent actuaries have assessed the IAS 19R position as at 31 December 2016 for the Innogy section by updating the last formal valuations using methods appropriate for IAS 19R. As at 31 December 2016 there was a deficit of £273m.

The Npower Limited cost of contributions (inclusive of contributions towards administrative expenses) during the financial year was £25 million (2015: £27 million) which includes additional contributions required to reduce the whole scheme deficit.

Contributions payable to the pension scheme at the end of the year are £nil (2015: £nil).

#### **14 Tax on profit/(loss)**

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

	<b>2016</b>	<b>2015</b>
	<b>£ m</b>	<b>£ m</b>
<b>Current taxation</b>		
Group relief (receivable)/payable	(2)	2
Adjustments in respect of previous years	-	4
Total current tax (credit)/charge	(2)	6
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	9	(12)
Derecognition of deferred tax asset recognised in prior year	-	1
Adjustments in respect of previous years	(1)	(5)
Impact of change in UK tax rate	2	5
Total deferred tax charge/(credit)	10	(11)
Total tax charge/(credit)	8	(5)

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2016 (continued)****14 Tax on profit/(loss) (continued)**

The tax assessed on loss before taxation for the year is higher than the standard rate of corporation tax in the UK (2015: higher than the standard rate of corporation tax in the UK) of 20% (2015: 20.25%).

The differences are reconciled below:

	2016 £ m	2015 £ m
Profit/(loss) before taxation	<u>4</u>	<u>(44)</u>
Profit/(loss) before taxation multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	1	(9)
Expenses not deductible for tax purposes	7	1
Derecognition of deferred tax asset recognised in prior year	-	1
Impact of changes in UK tax rate	2	5
Adjustments in respect of prior years	(1)	(1)
Income not taxable - disposal of building	-	(2)
Difference between current and deferred tax rates	<u>(1)</u>	<u>-</u>
Total tax charge/(credit)	<u>8</u>	<u>(5)</u>

	2016 £ m	2015 £ m
<b>Tax included in Other Comprehensive Income</b>		
Loss recorded in Other Comprehensive Income multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	<u>-</u>	<u>-</u>
Total tax charge included in Other Comprehensive Income	<u>-</u>	<u>-</u>

The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate which decreased from 21% to 20% from 1 April 2015.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.



**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2016 (continued)****14 Tax on profit/(loss) (continued)****Debtors: Amounts falling due after more than one year**

## Deferred tax assets

	<b>Asset £ m</b>
<b>2016</b>	
Accelerated tax depreciation	36
Other items	(2)
	<u>34</u>
	<u>34</u>
<b>2015</b>	
Accelerated tax depreciation	28
Other items	16
	<u>44</u>
	<u>44</u>

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

	<b>2016 £ m</b>	<b>2015 £ m</b>
<b>To be recovered within 12 months</b>		-
Deferred tax asset	-	
Deferred tax liability	-	-
<b>To be recovered after more than 12 months</b>		
Deferred tax asset	34	44
Deferred tax liability	-	-
	<u>34</u>	<u>44</u>
	<u>34</u>	<u>44</u>

**Npower Limited**

**Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

**14 Tax on profit/(loss) (continued)**

*Deferred tax movement during the year:*

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

*Deferred tax movement during the prior year:*

	At 1 January 2015 £ m	Recognised in Profit and Loss Account £ m	At 31 December 2015 £ m
Accelerated tax depreciation	9	19	28
Other items	24	(8)	16
Deferred tax assets	<u>33</u>	<u>11</u>	<u>44</u>

# Npower Limited

## Notes to the Financial Statements for the year ended 31 December 2016 (continued)

### 15 Intangible assets

	Goodwill £ m	Computer software £ m	Intangible assets under construction £ m	Total £ m
<b>Cost</b>				
At 1 January 2016	156	311	81	548
Additions	-	19	47	66
Disposals	-	(7)	-	(7)
Transfers	-	28	(31)	(3)
At 31 December 2016	156	351	97	604
<b>Accumulated amortisation</b>				
At 1 January 2016	-	142	-	142
Amortisation charge	-	52	-	52
Disposal	-	(7)	-	(7)
At 31 December 2016	-	187	-	187
<b>Carrying amount</b>				
At 31 December 2016	156	164	97	417
At 31 December 2015	156	169	81	406

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

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

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

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2016 (continued)****16 Tangible assets**

	<b>Land and buildings £ m</b>	<b>Furniture, fittings and equipment £ m</b>	<b>Assets under construction £ m</b>	<b>Other property, plant and equipment £ m</b>	<b>Total £ m</b>
<b>Cost</b>					
At 1 January 2016	1	23	1	3	28
Additions	4	-	1	1	6
Disposals	(1)	(2)	-	-	(3)
Transfers	-	1	-	2	3
At 31 December 2016	<u>4</u>	<u>22</u>	<u>2</u>	<u>6</u>	<u>34</u>
<b>Accumulated depreciation</b>					
At 1 January 2016	1	13	-	1	15
Charge for the year	-	3	-	1	4
Disposals	(1)	(2)	-	-	(3)
At 31 December 2016	<u>-</u>	<u>14</u>	<u>-</u>	<u>2</u>	<u>16</u>
<b>Carrying amount</b>					
At 31 December 2016	<u>4</u>	<u>8</u>	<u>2</u>	<u>4</u>	<u>18</u>
At 31 December 2015	<u>-</u>	<u>10</u>	<u>1</u>	<u>2</u>	<u>13</u>

**Npower Limited**  
**Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

**17 Investments**

	<b>Subsidiary undertakings £ m</b>
<b>Cost</b>	
At 1 January 2016	33
At 31 December 2016	33
<b>Carrying amount</b>	
At 31 December 2016	33
At 31 December 2015	33

Details of the subsidiaries as at 31 December 2016 are as follows:

<b>Name of subsidiary</b>	<b>Principal activity</b>	<b>Country of incorporation and principal place of business</b>	<b>Proportion of ownership interest and voting rights held</b>	
			<b>2016</b>	<b>2015</b>
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 Supply Limited	Gas shipping	England and Wales	100%	100%
RUMM Limited	Energy management solutions	England and Wales	100%	100%
PS Energy 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. The directors believe that the carrying value of the investments is supported by their underlying net assets and future expected cash flows from trading.

**18 Stocks**

	<b>2016 £ m</b>	<b>2015 £ m</b>
Raw materials and consumables	1	-

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2016 (continued)****19 Debtors: Amounts falling due within one year**

	<b>2016</b>	<b>2015</b>
	<b>£ m</b>	<b>£ m</b>
Trade debtors	464	160
Amounts owed by group undertakings	932	790
Loans owed by group undertakings	-	249
Accrued income	379	417
Prepayments	18	17
Other debtors	-	24
Total debtors	<u>1,793</u>	<u>1,657</u>

Loans owed by group undertakings are unsecured, bear interest at 3.2% (2015: 4.0%) and are repayable within one year.

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

Amounts owed by group undertakings include £2 million of group relief receivable (2015: £11 million).

**20 Available for sale financial assets**

	<b>2016</b>	<b>2015</b>
	<b>£ m</b>	<b>£ m</b>
Telecom Plus plc shares	<u>5</u>	<u>5</u>

Available for sale financial assets are stated at fair value. The Company holds 426,989 shares in Telecom Plus plc (2015: 426,989 shares). The investment is recorded at fair value, as at 31 December 2016 this was £5,021,391 (2015: £4,573,052), based on a closing mid market price of £11.76 per ordinary share (2015: £10.71 per ordinary share).

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2016 (continued)****21 Creditors: Amounts falling due within one year**

	2016	2015
	£ m	£ m
Trade creditors	155	45
Accrued expenses	654	606
Amounts owed to group undertakings	694	338
Social security and other taxes	77	97
Other payables	5	-
Customer payments in advance	43	117
Loans and borrowings	533	809
Corporation tax	5	-
Total creditors	<u>2,166</u>	<u>2,012</u>

Loans owed to group undertakings are unsecured, bear interest at 3.2% (2015: 0.0% and 4.0%) and are repayable within one year.

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

**22 Obligations under leases and hire purchase contracts****Operating leases**

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

	2016	2015
	£ m	£ m
Within one year	3	3
In two to five years	<u>5</u>	<u>7</u>
	<u>8</u>	<u>10</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £5 million (2015: £5 million).

**23 Share-based payments**

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

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **23 Share-based payments (continued)**

##### **BEAT**

###### *Scheme description*

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

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

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

##### **BEAT**

##### **2015 tranche**

Grant date	01/01/15
Number of conditionally granted performance shares	122,588
Term	4 years

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

###### *Pay-out conditions*

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



## Npower Limited

### Notes to the Financial Statements for the year ended 31 December 2016 (continued)

#### 23 Share-based payments (continued)

##### *Determination of payment*

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

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

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

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

##### *Changes in corporate control*

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

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

##### *Form of settlement - cash*

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

#### **SPP**

	<b>2016 tranche</b>
Grant date	07/10/2016
Number of conditionally granted performance shares	17,277
Term	4 years

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

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **23 Share-based payments (continued)**

##### ***Key performance criterion***

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

- a) Non-operating result (minus taxes on the non-operating result)
- b) Effect from re-evaluations of bonds of Finance B.V.
- c) Income from securities sales

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

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

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

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **23 Share-based payments (continued)**

##### ***Pay-out of performance shares***

The payout amount is calculated using the number of finally allocated Performance Shares multiplied with the sum of

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

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

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

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

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

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

## **Npower Limited**

### **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

#### **23 Share-based payments (continued)**

##### ***Changes in corporate control***

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

- a) a shareholder has taken control pursuant to § 29 of the German Wertpapiererwerbs- und Übernahmegesetz (WpÜG, German Securities Acquisition and Takeover Act) by holding at least 30% of the voting rights - including the attributed voting rights of third parties pursuant to § 30 of the WpÜG - and neither RWE nor a RWE Group company have control pursuant to § 29 WpÜG (30% of voting rights) at this time or
- b) a controlling agreement (Beherrschungsvertrag) with a company which is not part of RWE Group is entered into and has taken effect with innogy SE as dependent company pursuant to § 291 of the German Aktiengesetz (AktG, German Stock Corporation Act) or
- c) innogy SE is merged with a legal entity which is not part of RWE Group pursuant to § 2 of the German Umwandlungsgesetz (UmwG, German Transformation Act), unless the value of the external legal entity amounts to less than 50% of the innogy SE value according to the agreed upon conversion ratio. Under these circumstances, lit. a) is not applicable.

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

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

##### ***Form of settlement - cash***

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

The fair value of the provision in respect of BEAT and SPP included within the financial statements at 31 December 2016 is £nil (2015: £nil).

## Npower Limited

### Notes to the Financial Statements for the year ended 31 December 2016 (continued)

#### 23 Share-based payments (continued)

##### Sharesave scheme

##### *Scheme description*

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

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

	<b>2013 tranche</b>
Balance at start of the fiscal year	165,184
Grant during the year	-
Forfeited during the year	-
Exercised during the year	-
Expired during the year	(33,048)
Balance at the end of the fiscal year	132,136
Exercisable at the end of the fiscal year	132,136

No average weighted share price as of the exercise date was calculated as no options from the sharesave scheme were exercised in the previous fiscal year. The exercise price of the options from the sharesave scheme outstanding as of the Balance Sheet date was €20.71. The weighted average remaining contractual term amounted to zero years.

The fair value of the liability arising from the employee services received in respect of the 2013 tranche of sharesave scheme included within the financial statements of Npower Limited at 31 December 2016 is £1m (2015: £1m).

The fair value of the liability arising from the employee services received in respect of the 2012 tranche of the sharesave scheme is included within the financial statements of RWE Generation UK plc. RWE Generation UK plc then recharged the Retail Group for the expenses of its employees.

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

The Retail Group did not operate a new tranche of the scheme in 2016 or 2015.

# **Npower Limited**

## **Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

### **24 Derivative financial assets/(liabilities)**

At 31 December 2016, derivative financial assets/(liabilities) outstanding related to power trades and swaps. The derivative financial assets mature over the period 2017 to 2021.

	<b>2016</b>	<b>2015</b>
	<b>£ m</b>	<b>£ m</b>
Commodity derivatives	28	(63)
Weather derivatives	-	(2)
	<u>28</u>	<u>(65)</u>

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

### **Financial instruments by category**

	<b>Loans &amp; receivables</b>	<b>Available for sale</b>	<b>Assets @ fair value through profit &amp; loss</b>	<b>Total</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
<b>2016</b>				
<b>Assets as per balance sheet</b>				
Derivative commodity instruments	-	-	28	28
Available for sale financial assets	-	5	-	5
Trade & other receivables excluding prepayments	1,775	-	-	1,775
Cash & cash equivalents	44	-	-	44
<b>Total</b>	<u>1,819</u>	<u>5</u>	<u>28</u>	<u>1,852</u>

	<b>Other financial liabilities at amortised cost</b>	<b>Total</b>
	<b>£ m</b>	<b>£ m</b>
<b>2016</b>		
<b>Liabilities as per balance sheet</b>		
Borrowings	533	533
Trade and other payables excluding non-financial liabilities	1,633	1,633
<b>Total</b>	<u>2,166</u>	<u>2,166</u>

	<b>Loans &amp; receivables</b>	<b>Available for sale</b>	<b>Total</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
<b>2015</b>			
<b>Assets as per balance sheet</b>			
Available for sale financial assets	-	5	5
Trade & other receivables excluding prepayments	1,640	-	1,640
Cash & cash equivalents	30	-	30
<b>Total</b>	<u>1,670</u>	<u>5</u>	<u>1,675</u>

**Npower Limited**

**Notes to the Financial Statements for the year ended 31 December 2016 (continued)**

**24 Derivative financial assets/(liabilities) (continued)**

	Other financial liabilities at amortised cost £ m	Liabilities @ fair value through profit & loss £ m	Total £ m
<b>2015</b>			
<b>Liabilities as per balance sheet</b>			
Derivative weather instruments	-	2	2
Derivative commodity instruments	-	63	63
Borrowings	809	-	809
Trade and other payables excluding non-financial liabilities	1,205	-	1,205
<b>Total</b>	<b>2,014</b>	<b>65</b>	<b>2,079</b>

**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 2016 £ m	Level 2 2016 £ m	Level 3 2016 £ m	Total £ m
Commodity derivatives	-	28	-	28
<b>Total</b>	<b>-</b>	<b>28</b>	<b>-</b>	<b>28</b>

	Level 1 2015 £ m	Level 2 2015 £ m	Level 3 2015 £ m	Total £ m
Weather derivatives	-	(2)	-	(2)
Commodity derivatives	-	(63)	-	(63)
<b>Total</b>	<b>-</b>	<b>(65)</b>	<b>-</b>	<b>(65)</b>

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2016 (continued)****24 Derivative financial assets/(liabilities) (continued)**

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

	Assets/ (liabilities) at fair value through profit and loss 2016 £ m	Assets/ (liabilities) at fair value through profit and loss 2015 £ m
Due within one year	6	(25)
Due in more than one year and less than two years	18	(32)
Due in more than two years and less than five years	4	(8)
Total	<u>28</u>	<u>(65)</u>

**Financial risk management****a) Commodity price risk**

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

**b) Credit risk**

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

None of the financial assets are past due or impaired as at 31 December 2016.

**c) Liquidity risk**

A maturity analysis of financial liabilities relating to the commodity derivatives is included above. Settlement of the contracts entered into with respective parties is settled on a monthly basis through the payment of cash amounts or reduction in intercompany debts.

Cash flow risk is mitigated by the use of forward derivatives for the purchase of power. This reduces the Company's exposure to unforeseen cash movements in the future.



# Npower Limited

## Notes to the Financial Statements for the year ended 31 December 2016 (continued)

### 24 Derivative financial assets/(liabilities) (continued)

#### Gross value of assets and liabilities

##### (a) Financial assets

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

	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
<b>As at 31 December 2016</b>			
Commodity derivatives	106	(78)	28
<b>Total</b>	<b>106</b>	<b>(78)</b>	<b>28</b>

	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
<b>As at 31 December 2015</b>			
Commodity derivatives	134	(134)	-
<b>Total</b>	<b>134</b>	<b>(134)</b>	<b>-</b>

##### (b) Financial liabilities

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

	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
<b>As at 31 December 2016</b>			
Commodity derivatives	(78)	78	-
<b>Total</b>	<b>(78)</b>	<b>78</b>	<b>-</b>

	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
<b>As at 31 December 2015</b>			
Weather derivatives	2	-	2
Commodity derivatives	197	(134)	63
<b>Total</b>	<b>199</b>	<b>(134)</b>	<b>65</b>

## Npower Limited

### Notes to the Financial Statements for the year ended 31 December 2016 (continued)

#### 25 Provisions for liabilities

	Liabilities and claims £ m	Restructuring £ m	Other provisions £ m	Final customer credits £ m	Total £ m
At 1 January 2016	11	4	1	2	18
Additional provisions	9	13	1	-	23
Provisions used	(11)	(6)	-	-	(17)
Unused provision reversed	-	(5)	-	-	(5)
At 31 December 2016	<u>9</u>	<u>6</u>	<u>2</u>	<u>2</u>	<u>19</u>

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

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

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

Final customer credits relate to remaining customer balances which arise from various circumstances including customer debt which has previously been provided against and subsequently recovered, or where management's ability to raise a final bill following the loss of a customer is prevented because of the absence of final meter readings, or where overpayments have been made by lost customers for whom there is no forwarding address or other contact details. The amount retained in provisions represents management's assessment of potential claims from lost customers who re-establish contact with the Company, and is expected to be utilised over six years.

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

#### 26 Contingent liabilities

In the normal course of business the Company has provided parent company guarantees on behalf of its subsidiaries. As at 31 December 2016 the total value of these guarantees amounted to £15 million (2015: £15 million).

There were bank issued letters of credit issued on the Company's facilities. As at 31 December 2016, the total value of these letters of credit amounted to £23 million (2015: £27 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.

**Npower Limited****Notes to the Financial Statements for the year ended 31 December 2016 (continued)****27 Called up share capital****Allotted, called up and fully paid shares**

	No.	2016 £	No.	2015 £
Ordinary shares of £1 each (2015: £1 each)	<u>101,000,001</u>	<u>101,000,001</u>	<u>1,000,001</u>	<u>1,000,001</u>

During the year the Company issued 100 million shares at par value of £1 each.

**28 Controlling parties**

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

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

The Company is controlled by Npower Group plc (the immediate parent), a company incorporated in Great Britain and registered in England and Wales.