Registration number: 08241182

Npower Group Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018

Npower Group Limited
Contents

Npower Group Limited
Strategic Report for the year ended 31 December 2018

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

Business review and future developments
The Company's loss for the financial year ended 31 December 2018 is £2,082m (2017: loss £251m), which includes £2,127m of provisions against loans to subsidiaries.

The Company offers financing to its fellow subsidiaries with fluctuations in profit due to movements in underlying interest rates and borrowings between group undertakings, in addition to any dividends received from subsidiary companies. No dividends were received during 2018 (2017: £nil).

At 31 December 2018, the Balance Sheet comprised investments in subsidiaries of £133m (2017: £133m), net amounts owed to group undertakings of £365m (2017: Net amounts owed by group undertakings of £1,737m) and a bank overdraft of £9m (2017: £3m).

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

The planned merger with SSE's household energy and energy services business was cancelled in December 2018 as since the original deal was announced in November 2017 market conditions for energy suppliers worsened, with profit margins to gain new customers at record lows and the final Ofgem price cap being set at a level that doesn't allow energy companies to recover all of their costs.

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

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

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

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

Position of the business
The net liabilities of the Company at 31 December 2018 were £215m (2017: net assets £1,867m).

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

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

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

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

Key performance indicators (KPIs)
The Company does not have any trading operations or activity. For this reason, the Company's directors do not set KPIs for this entity.

Approved by the Board on ...27-6-19...... and signed on its behalf by:

....
Mr P Coffey
Director

Npower Group Limited
Directors' Report for the year ended 31 December 2018

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

Principal activities
The principal activity of the Company is as the holding company for the npower Retail Group. The npower Retail Group consists of 6 main trading entities and 4 other entities. Each of the 6 main trading entities operate in varying business areas, namely:

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

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

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

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

Dividends
The directors do not recommend the payment of a dividend (2017: £nil).

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

Mr P Coffey

Mr D Simons

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.

Npower Group Limited
Directors' Report for the year ended 31 December 2018 (continued)

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 its parent company, innogy SE. The Company has received a letter of support from innogy SE which indicates that it intends to provide such funds as are necessary for the Company to trade for the period of a year after the date of signing financial statements.

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

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

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

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

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

Financial risk management

Capital management

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

Liquidity risk

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

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.

General risk management

As a subsidiary of innogy SE, the Company complies with the Risk Management Directive of innogy SE, which embodies 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

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 these financial statements, the directors are required to:

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

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

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

Npower Group Limited
Directors' Report for the year ended 31 December 2018 (continued)

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

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

Approved by the Board on 27-6-19 and signed on its behalf by:

....
Mr P Coffey
Director

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

Report on the audit of the financial statements

Opinion

In our opinion, Npower Group Limited's financial statements:

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

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

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

....

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

Date: 27 June 2019

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

	Note	2018 £ m	2017 £ m
Administrative expenses		-	(1)
Interest receivable and similar income	4	27	79
Interest payable and similar expenses	5	(10)	(338)
Impairment of loans to group undertakings	11	(2,127)	-
Loss before taxation		(2,110)	(260)
Tax on loss	8	28	9
Loss for the financial year		(2,082)	(251)

The above results were derived from continuing operations.

There are no further items which would be included in other comprehensive income so no separate statement of comprehensive income has been prepared.

The notes on pages 14 to 27 form an integral part of these financial statements.

Npower Group Limited
Balance Sheet as at 31 December 2018

	Note	2018 £ m	2017 £ m
Fixed assets			
Investments	9	133	133
		133	133
Current assets			
Debtors: amounts falling due within one year	10	15	10
Debtors: amounts falling due after more than one year	11	522	2,561
		537	2,571
Current liabilities			
Creditors: amounts falling due within one year	12	(885)	(837)
Net current (liabilities)/assets		(348)	1,734
Net (liabilities)/assets		(215)	1,867
Capital and reserves			
Called up share capital	13	-	1,917
Profit and loss account		(215)	(50)
Total shareholders' (deficit)/funds		(215)	1,867

The financial statements on pages 11 to 27 were approved by the Board on 27-6-19 and signed on its behalf by:

....
Mr P Coffey
Director

Npower Group Limited registered company number: 08241182

The notes on pages 14 to 27 form an integral part of these financial statements.

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

	Called up share capital £ m	Profit and loss account £ m	Total shareholders' funds £ m
At 1 January 2018	1,917	(50)	1,867
Loss for the financial year	-	(2,082)	(2,082)
Total comprehensive expense for the year	-	(2,082)	(2,082)
Share capital reduction	(1,917)	1,917	-
At 31 December 2018	-	(215)	(215)

	Called up share capital £ m	Profit and loss account £ m	Total shareholders' funds £ m
At 1 January 2017	33	201	234
Loss for the financial year	-	(251)	(251)
Total comprehensive income for the year	-	(251)	(251)
New share capital subscribed	1,884	-	1,884
At 31 December 2017	1,917	(50)	1,867

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

Profit and loss account represents the (retained earnings)/accumulated losses of the Company.

During the year the Company passed a special resolution to reduce its share capital as disclosed in note 13.

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 activity of the Company is as the holding company for the npower Retail Group.

2 Accounting policies

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

Basis of preparation
These financial statements were prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The financial statements were prepared under the historical cost convention.

Where required, equivalent disclosures are given in the innogy SE group financial statements.

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

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

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

- IFRS 7 (Financial Instruments: Disclosures)

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

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

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)

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

  (i) 10(d) (statement of cash flows)
  (ii) 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements)
  (iii) 16 (statement of compliance with all IFRS)
  (iv) 38A (requirement for minimum of two primary statements, including cash flow statements)
  (v) 38B-D (additional comparative information)
  (vi) 40A-D (requirements for a third statement of financial position)
  (vii) 111 (cash flow statement information)
  (viii) 134-136 (capital management disclosures)

- IAS 7 (Statement of Cash Flows)

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

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

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

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 17.

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 its parent company, innogy SE. The Company has received a letter of support from innogy SE which indicates that it intends to provide such funds as are necessary for the Company to trade for the period of a year after the date of signing financial statements.

The proposed transaction between RWE and E.ON, as described on page 4, will see innogy SE, and therefore the Company, as its indirect wholly owned subsidiary, transfer to E.ON in 2019 as part of an asset swap deal. E.ON will become the majority shareholder in innogy SE as part of the asset swap deal, however it is not currently known how the legal entity of innogy SE will be integrated into E.ON. If innogy SE is merged with an E.ON group company then it becomes the legal successor of innogy SE and under German law the contracts and liabilities of the acquired group are transferred to the acquiring party, therefore the letter of support from innogy SE will be transferred to E.ON. If innogy SE is not merged with an E.ON group company then the letter of support would continue to be valid with innogy SE. The directors are of the opinion that both E.ON and innogy SE would be able to access external sources of finance and with sufficient liquidity to meet its operating needs. Management however recognise that there is uncertainty regarding the future of the Company within E.ON until an announcement is made by E.ON as to its intentions towards the npower Retail Group going forward.

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

2 Accounting policies (continued)

Exemption from preparing group financial statements
The financial statements contain information about Npower Group 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 by full consolidation in the consolidated financial statements of innogy SE, a company incorporated in Germany.

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

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

IFRS 9 Financial Instruments (2014) replaces the previous regulations of IAS 39 on financial instruments. The Standard contains amended regulations on measurement categories for financial assets and includes some smaller changes in relation to the measurement of financial liabilities. Fair value measurement without an effect on income is stipulated for certain debt instruments reported under assets. It also contains regulations on the impairment of assets and hedge accounting. The rules on impairment will now apply to expected losses. The new regulations on hedge accounting are intended to enable better reporting of the risk management activities in the consolidated financial statements. To this end, IFRS 9 expands the range of underlying transactions qualifying for hedge accounting and simplifies effectiveness testing, among other things. The new Standard became effective for fiscal years starting on or after 1 January 2018. No material changes have occurred with regard to the implementation of IFRS 9.

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

The new Standard does not distinguish between different types of orders and performance. It establishes uniform criteria as to when revenue is realised for a performance obligation at a point in time (as is the case for the npower Retail Group) or over time. Accordingly, revenue is to be recognised when the customer obtains control of the agreed goods and services and can benefit from such. Application of the new Standard is required for annual periods beginning on or after 1 January 2018. The Company does not have any revenue, therefore there is no impact from the implementation of the standard.

2 Accounting policies (continued)

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

For lessors, the new Standard does not result in any significant changes to the current accounting treatment pursuant to IAS 17 also in terms of classifying the lease, which is still necessary. The new Standard becomes effective for fiscal years starting on or after 1 January 2019, which is when the Company will adopt the new standard. On transition, the modified retrospective method will be applied. There is no effect of IFRS 16 on the Company's financial statements.

The following Standards, amendments to Standards, and Interpretations are not expected to have any material effects on npower Retail Group's consolidated financial statements:

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

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

Taxation
The tax expense for the period 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.

2 Accounting policies (continued)

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.

Investments

All fixed asset investments are stated at cost less provision for any impairment.

Investments in securities are classified on initial recognition as fair value through other comprehensive income and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment. On disposal of the investment the cumulative change in fair value is transferred from the OCI reserve to retained earnings.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Impairment of non-financial assets

The Company's management reviews the carrying amounts of its investments to determine whether there is any indication that the investments 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.

2 Accounting policies (continued)

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 income statement 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.

Debtors

Debtors are amounts due from group companies in respect of financing or group taxation relief. 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.

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

Creditors

Creditors are obligations to group companies in respect of financing. The accounting policy for financing creditors is detailed in the Borrowings section above. 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.

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

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.

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.

3 Critical accounting judgements and key sources of estimation uncertainty

Valuation of debtors - estimation uncertainty

Debtors represent the most significant exposure to credit risk and are stated after an allowance for impairment. The Company makes an estimate of the recoverable value of loan receivables which comprise all debtor balances other than deferred tax. When assessing impairment of loan receivables, management considers the likelihood of repayment by the subsidiary based on the expected cash flows of that subsidiary and the ability to make repayments. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all loan receivables. See note 11 for the net carrying amount of the receivables and associated impairment provision.

4 Interest receivable and similar income

	2018 £ m	2017 £ m
Interest income on bank deposits	-	1
Interest receivable from group undertakings	27	78
	27	79

5 Interest payable and similar expenses

	2018 £ m	2017 £ m
Interest payable to group undertakings	10	338

In 2017 the Company settled long term loans with innogy International Participations N.V., the immediate parent company, including interest arising on early settlement of £273m. This cost was recognised within interest payable to group undertakings.

6 Directors' remuneration

The Company had no employees during the year (2017: none) other than the directors. None of the directors received any remuneration for their services as directors of the Company. During the year aggregate emoluments of £1.7m were paid to the directors (2017: £1.2m) for their services to subsidiary companies. No compensation for loss of office was paid to the directors (2017: £nil).

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2018 No.	2017 No.
Accruing benefits under defined benefit pension scheme	1	1
Accruing benefits under money purchase pension scheme	1	1

The directors, including the highest paid director, were not entitled to receive aggregate cash payments during the year (2017: not entitled) under long-term incentive schemes from the Company.

6 Directors' remuneration (continued)

In respect of the highest paid director:

	2018 £	2017 £
Remuneration	645,439	649,893
Benefits under long-term incentive schemes (excluding shares)	400,000	-
Defined benefit accrued pension entitlement at the end of the year	95,100	92,300
Defined benefit accrued lump sum at the end of the year	279,800	276,800

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

7 Auditors' remuneration

The audit fee for the Company was borne by Npower Limited, another npower Retail Group company, and not recharged.

No fees were paid to the auditors for non audit services.

8 Tax on (loss)/profit

The tax credit is made up as follows:

	2018 £ m	2017 £ m
Current taxation:		
Group relief receivable/(payable)	(3)	1
Adjustments in respect of prior periods	(14)	(10)
Total current tax credit	(17)	(9)
Deferred taxation:		
Arising from origination and reversal of temporary differences	1	-
Adjustment in respect of prior periods	(12)	-
Total deferred taxation	(11)	-
Total tax credit to profit and loss account	(28)	(9)

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

8 Tax on (loss)/profit (continued)

The differences are reconciled below:

	2018 £ m	2017 £ m
Loss before taxation	(2,110)	(260)
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(401)	(50)
Adjustments in respect of prior periods	(26)	(10)
Expenses not deductible for tax purposes	399	51
Total tax credit	(28)	(9)

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

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020.

8 Tax on (loss)/profit (continued)

Deferred tax

Deferred tax assets and liabilities

2018	Asset £ m
Other items	11

Deferred tax movement during the year:

	At 1 January 2018 £ m	Recognised in income £ m	At 31 December 2018 £ m
Other items	-	11	11

9 Investments

	Subsidiary undertakings £ m
Cost	
At 1 January 2018	133
At 31 December 2018	133
Cost and carrying amount	
At 1 January 2017 and as at 31 December 2018	133
At 1 January 2016 and as at 31 December 2017	133

The Company did not receive any dividends during the year from group undertakings (2017: £nil).

9 Investments (continued)

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

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2018	2017
Npower Limited	Energy supplier	England and Wales	100%	100%
Npower Northern Limited	Energy supplier	England and Wales	100%	100%
Npower Direct Limited	Energy supplier	England and Wales	100%	100%
Npower Yorkshire Limited	Energy supplier	England and Wales	100%	100%
Innogy Solutions Ireland Limited	Energy supplier	Republic of Ireland	100%	100%

The registered office of Innogy Solutions Ireland Limited is 25/28 North Wall Quay, Dublin 1, Ireland. The registered office of all other 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.

10 Debtors: amounts falling due within one year

	2018 £ m	2017 £ m
Amounts owed by group undertakings	-	10
Income tax asset	15	-
	15	10

Loans owed by group undertakings entered into on 29 December 2016 were settled during 2017. The loans included accrued interest receivable on the loan agreements. The financing arrangements were revised during 2017 as explained in note 11.

Amounts owed by group undertakings relate to group relief receivable.

11 Debtors: amounts falling due after more than one year

	2018 £ m	2017 £ m
Loans owed by group undertakings	511	2,561
Deferred tax asset	11	-
	522	2,561

During 2017 the Group revised its financing arrangements. Cash surpluses and deficits in each Group company are swept on a daily basis and recognised as loans owed to/by group undertakings. Interest is calculated on a daily basis and interest rates reflect the overall cost of borrowing or deposit rates and are updated where required. All loans within this financing arrangement mature on 30 December 2021.

The Company entered into loan agreements with Npower Limited, Npower Yorkshire Limited, Npower Commercial Gas Limited, Npower Financial Services Limited, Npower Gas Limited, PS Energy UK Limited and Npower Northern Limited. The book value at 31 December 2018 and the associated principal amounts lent under these agreements both total £2,638m. The loans are unsecured and at 31 December 2018 bear interest at a rate of 1.067% (2017: 1.56%) . Loans owed by group undertakings also include accrued interest receivable on the loan agreements.

As of the balance-sheet date, the recoverable amounts of loans owed by group undertakings, which were calculated as fair value less costs of disposal, were compared to their carrying amounts. The Company recognised a charge of £2,127m (2017: £nil) in respect of fair value provisions against loans to the npower Retail Group due to a deterioration in commercial assumptions and more difficult regulatory conditions. These provision charges react especially sensitively to changes in the discount rate, the growth rate and cash flow in the terminal value.

12 Creditors: amounts falling due within one year

	2018 £ m	2017 £ m
Loans owed to group undertakings	876	834
Bank overdrafts	9	3
	885	837

12 Creditors: amounts falling due within one year (continued)

Bank borrowings

During 2017 the Group revised its financing arrangements as explained in note 11.

The Company has loan agreements with Innogy Business Services UK Limited, Plus Shipping Services Limited and Npower Direct Limited. The book value at 31 December 2018 and the associated principal amounts lent under these agreements both total £178m. The loans are unsecured and at 31 December 2018 bear interest at a rate of 0.58% (2017: 0.37269%).

The Company entered into a loan agreement with the immediate parent company, innogy International Participations N.V., for £700m on 21 December 2018. The loan was repaid on 21 March 2019 and had an interest rate of 1.07063%. A new loan of £850m was entered into on the 21st March 2019 and had an interest rate of 1.12563%.

Loans owed by group undertakings include accrued interest receivable on the loan agreements.

13 Called up share capital

Allotted, called up and fully paid shares

	2018 No.	2018 £	2017 No.	2017 £
Ordinary shares of £1 each	1	1	1,917,001,478	1,917,001,478

During 2017 the Company issued 1,883,788,492 shares at nominal value of £1 per share.

On 3rd July 2018 the Company passed a special resolution to reduce the capital of the Company. The share capital was reduced by £1,917,001,477 comprising 1,917,001,477 shares.

14 Contingent liabilities

In the normal course of business the Company has provided parent company guarantees on behalf of its subsidiaries. As at 31 December 2018 the total value of these guarantees amounted to £24m (2017: £23m).

There were bank issued letters of credit issued on the Company's facilities. As at 31 December 2018, the total value of these letters of credit amounted to £nil (2017: £115k).

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 as the Npower Group remains part of the innogy SE group of companies and is funded on an ongoing basis through a cash management agreement.

15 Controlling parties

The Company's immediate parent is innogy International Participations N.V., a company incorporated in the Netherlands.

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.