

innogy UK Consolidated Segmental Statement

For the year ended 31 December 2019

Independent auditor's report to the Directors of Npower Group Limited and Innogy Renewables UK Holdings Limited and its Licensees

Opinion

We have audited the statement (the 'Consolidated Segmental Statement' or 'CSS') of Npower Group Limited and Innogy Renewables UK Holdings Limited ('Innogy UK Consolidated Segmental Statement') and its relevant Licensees (as listed in footnote ii) (together also referred to as "the Businesses") for the year ended 31 December 2019 in accordance with the terms of our agreement dated 18 March 2020. The CSS has been prepared by the Directors of Npower Group Limited and Innogy Renewables UK Holdings Limited and its Licensees based on the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together, the 'Licences') and the basis of preparation on pages 6-11.

In our opinion the accompanying CSS of Npower Group Limited and Innogy Renewables UK Holdings Limited and its Licensees for the year ended 31 December 2019 is prepared, in all material respects, in accordance with:

- (i) the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the regulator; and
- (ii) the basis of preparation on pages 6-11.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the CSS section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the CSS in the United Kingdom, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 CSS in the UK, which includes the FRC's Ethical Standard applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of Accounting and Restriction on Distribution

In forming our opinion on the CSS, which is not modified, we draw attention to pages 6-11 of the CSS, which describes the basis of preparation. The CSS is prepared in order for Npower Group Limited and Innogy Renewables UK Holdings Limited and its Licensees to meet the Licence requirement of Regulator Ofgem rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 6-11. This basis of preparation is not the same as segmental reporting under IFRS and /or statutory reporting. As a result, the schedule may not be suitable for another purpose.

Responsibilities of Management and those charged with governance for the CSS

Management is responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 6-11 and for maintaining the underlying accounting records and such internal controls as management determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

In preparing the CSS, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the CSS

Our objectives are to obtain reasonable assurance about whether the CSS as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 this CSS. The materiality level that we used in planning and performing our audit is set at £15 million for each of the segments.

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

Use of this report

This report, including our opinion, has been prepared solely for the Board of Directors of Npower Group Limited and Innogy Renewables UK Holdings Limited and their relevant Licensees to assist the Directors in reporting on the CSS to the Regulator, Ofgem, in accordance with our engagement letter dated 18 March 2020 and for no other purpose.

We permit this report to be disclosed in the About Us (Reports) section of the website¹ www.npower.com, to enable the Directors of Npower Group Limited's and Innogy Renewables UK Holdings Limited's relevant Licensees to show how they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors of Npower Group Limited's and Innogy Renewables UK Holdings Limited's relevant Licensees for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP

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27 April 2020

- i) The maintenance and integrity of Npower's website is the responsibility of the Directors of Npower Group Limited; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.
- ii) Licence holders: Supply licence holders (Npower Ltd, Npower Commercial Gas Ltd, Npower Gas Ltd, Npower Northern Ltd, Npower Yorkshire Ltd). Generation licence holders (Gwynt Y Mor Offshore Wind Farms Ltd, Greater Gabbard Offshore Winds Ltd, Carnedd Wen Wind Farm Ltd, Galloper Wind Farm Ltd, Triton Knoll Offshore Wind Farm Ltd, Sofia Offshore Wind Farm Limited). Supply and Generation licence holder (Npower Direct Ltd).

innogy UK Consolidated Segmental Statement

- The notes in sections 1-8 below are integral to gaining a full and proper understanding of the CSS and should be read in conjunction with the statement.

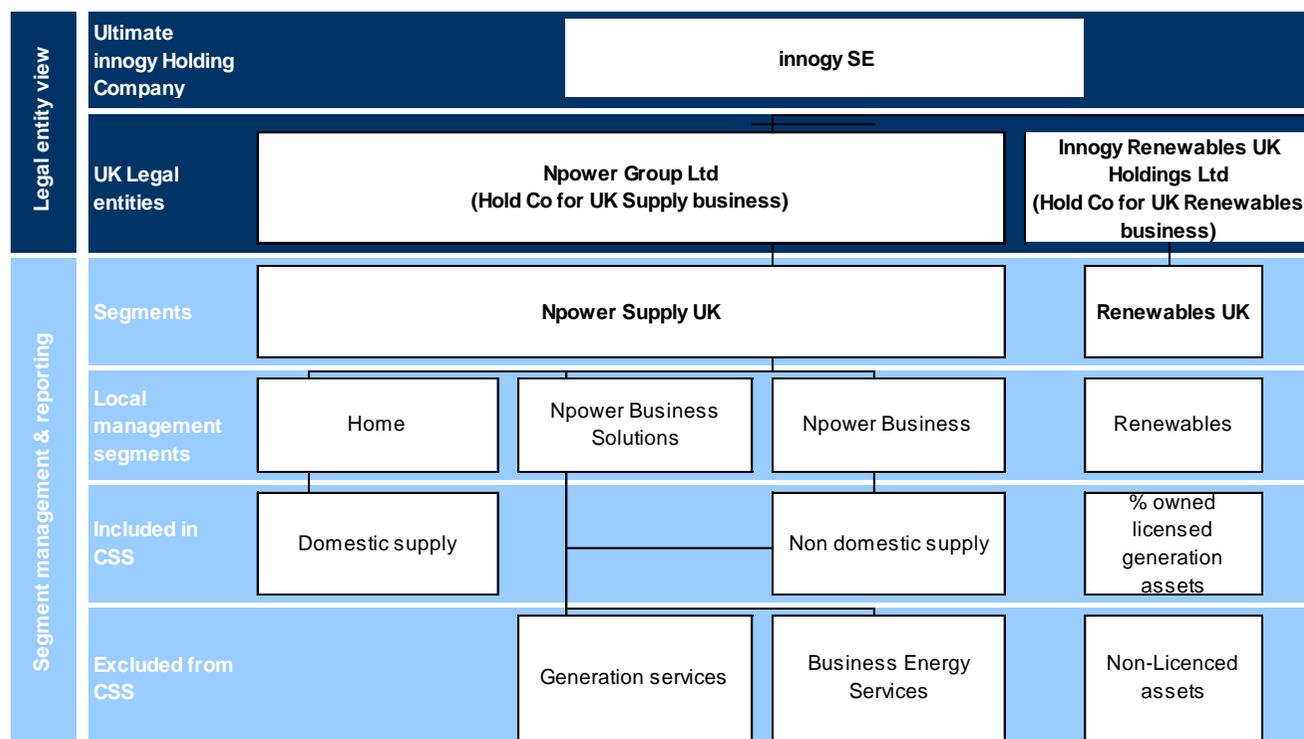
YE 2019 Consolidated Segmental Statement		GENERATION		SUPPLY				Aggregate Supply
		Electricity Generation	Aggregate Generation	Electricity		Gas		
		Renewable		Domestic	Non-domestic	Domestic	Non-domestic	
Total revenue	£m	290	290	1,276	3,522	837	382	6,017
<i>Revenue from sales of electricity and gas (i)</i>	£m	285	285	1,276	3,522	837	382	6,017
<i>Other revenue</i>	£m	5	5	-	-	-	-	-
Total operating costs	£m	(86)	(86)	(1,369)	(3,533)	(870)	(380)	(6,152)
Direct fuel costs	£m	-	-	(456)	(1,467)	(403)	(220)	(2,546)
Direct costs	£m	(25)	(25)	(643)	(1,840)	(252)	(112)	(2,847)
<i>Transportation costs</i>	£m	(25)	(25)	(305)	(835)	(220)	(103)	(1,463)
<i>Environmental & social obligation costs</i>	£m	-	-	(315)	(968)	(14)	-	(1,297)
<i>Other direct costs</i>	£m	-	-	(23)	(37)	(18)	(9)	(87)
Indirect costs	£m	(61)	(61)	(270)	(226)	(215)	(48)	(759)
WACO F/E/G	£/MWh, p/th	N/A	N/A	62.12	53.25	55.92	53.82	N/A
EBITDA	£m	204	204	(93)	(11)	(33)	2	(135)
Depreciation and amortisation	£m	(101)	(101)	(16)	(4)	(13)	(2)	(35)
EBIT	£m	103	103	(109)	(15)	(46)	-	(170)
Volume	TWh, MThms	2.1	N/A	7.3	27.6	721.4	407.0	N/A
Customer numbers	000s	N/A	N/A	2,153	347	1,485	41	4,026
EBIT Margin		35.5%	35.5%	-8.5%	-0.4%	-5.5%	0.0%	-2.8%
Supply Total Domestic EBIT Margin								-7.3%
Supply Total Non-domestic EBIT Margin								-0.4%

- i) Revenue from sales of electricity and gas includes the sale of Renewable Obligation Certificates (ROCs) in relation to Renewable Electricity Generation.
ii) innogy UK did not undertake conventional generation activities during the course of 2019.

Basis of Preparation

1. innogy UK Renewable Generation & Npower Supply legal and management structure as at 31 December 2019

- Set out below is a summarised, high level view of the legal entity and management and reporting structure of innogy UK Renewable Generation and Supply operations as at 31 December 2019. From a legal entity perspective, the UK supply business is owned by Npower Group Limited.
- On 17 September 2019, innogy's parent company at the time, RWE, concluded a transaction with E.ON SE Group which resulted in E.ON SE Group obtaining a 76.8% share in innogy. This has been subsequently increased to circa 90%. As at 31 December 2019, the innogy SE group still owned both Supply and Generation licenced businesses in the UK and met the definition of an affiliate of E.ON SE Group. As these businesses have operated independently of the E.ON UK plc Group during the period, the results of these businesses have been detailed in this report and excluded from the E.ON UK plc Group Consolidated Segmental Report.
- At the UK level, the Npower Supply UK business is organised into three sub-segments being: Home, Npower Business Solutions and Npower Business.
- The activities that are excluded from the CSS are explained further in section 2.



Basis of Preparation

2. Legal entities included in the 2019 CSS

- The CSS includes the revenues and costs attributable to the electricity and gas supply activities of all subsidiaries of Npower Group Limited that held an electricity/gas supply licence and engaged in gas/electricity supply activities during the year ended 31 December 2019.
- A list of the legal entities which held a generation or supply licence and traded during 2019 is detailed below:

Company registration No	Legal entity	Licences		Business Activities	
		Generation	Supply	Generation	Supply
3653277	Npower Ltd		x	No	Yes
3768856	Npower Commercial Gas Ltd		x	No	Yes
2999919	Npower Gas Ltd		x	No	Yes
3432100	Npower Northern Ltd		x	No	Yes
3782443	Npower Direct Ltd	x	x	No	Yes
3937808	Npower Yorkshire Ltd		x	No	Yes

- Some of the entities above have trading activities that are excluded from the scope of Ofgem’s requirements. These activities are referred to as “out of scope” and the revenues and costs attributable to these activities are excluded from the CSS. Examples of such “out of scope” activities include:
 - Generation Services relating to the provision of consultancy and advice to business customers in the Npower supply UK segment; and
 - Power Purchase Agreements (PPAs) with affiliated Wind Farm operators.
 - The CSS does not include the revenues and costs of operations that do not require the entity to hold a gas/electricity supply licence. For example, the Business Energy Services segment (as shown in the diagram in section 1 above) provides metering services to business customers and electrical/mechanical installation services to the private and public sector. This segment is therefore excluded from the CSS.
- The CSS does not include subsidiaries that held either electricity generation or gas/electricity supply licences but which were dormant and had no trading activities during the year ended 31 December 2019.
- In addition, the CSS includes the revenues and costs of four joint venture (JV) entities and two wholly owned subsidiary companies that are held within the Renewables segment of the innogy SE Group. Information on the four JV companies and two wholly owned subsidiary companies included within the CSS is set out in section 4.

Basis of Preparation

3. Transfer pricing

- The Npower Supply UK segment sources its wholesale commodity requirements for power and gas from RWE Supply and Trading (RWEST) in the UK (a former group company prior to September 2019 when npower was a member of the RWE group). This arrangement is explained in detail in section 6.2.
- Legal entities in the Npower Supply UK segment receive and provide central support services to each other and also to and from other divisions of the innogy Group. These are mainly support services and functions such as IT, HR, Transactional Accounting, Tax and Internal Audit.
- In accordance with innogy Group policies, the arrangements specified above are “arm’s length”. This means the price which independent third parties would have agreed with each other under comparable business conditions.
- There have been no changes to transfer pricing policies and procedures in 2019.

4. Affiliates / Joint Ventures (‘JVs’) included in the CSS

- Npower Supply UK has no JV arrangements; therefore there are no direct JVs that should be included in the CSS from the companies in the segment.
- Innogy Renewables UK Holdings Limited does not form part of Npower Supply UK but it is treated as an “Affiliate” for the purposes of the CSS, and has four JV interests in wind farms and two wholly owned subsidiary companies which hold a generation licence.
- Accordingly, Innogy Renewables UK Holdings Limited’s share of the revenues, costs and adjusted EBIT in the four JV wind farms is included in the Generation segment of the CSS in accordance with paragraph 5 of the modified License Conditions. The details of the four JVs and the two wholly owned subsidiaries’ proportionate shares of the results are reflected in the CSS as follows:
 - 50% of the adjusted EBIT of Greater Gabbard Offshore Winds Limited (company registered number: 04985731);
 - 59% of the adjusted EBIT Triton Knoll Offshore Wind Farm Limited (company registered number 03696654);
 - 50% of the adjusted EBIT of Gwynt Y Mor Offshore Wind Farm Limited (company registered number: 03697015). Due to the legal and commercial arrangements in place this is represented by the adjusted EBIT of Innogy GYM 2 Limited, Innogy GYM 3 Limited and Innogy GYM 4 Limited, (company registered numbers: 07233494, 07233487 and 07233491);
 - 25% adjusted EBIT for its non-controlling share of Galloper Wind Farm Limited (company registered number 07320597);
 - 100% of Carnedd Wen Wind Farm Limited (company registered number 05712858); and
 - 100% of Sofia Offshore Wind Farm Limited (company registered number 07791964).

Basis of Preparation

4. Affiliates / Joint Ventures ('JVs') included in the CSS (continued)

- The proportionate share of the Innogy Renewables UK Holdings Limited interest in the JVs is reflected in the Renewables column in the CSS. Adjusted EBIT is defined as the earnings before interest and tax, excluding non-operating items including mark-to-mark adjustments, impairments and restructuring costs.
- Gwynt Y Mor Offshore Wind Farm Limited, Greater Gabbard Offshore Winds Limited and Galloper Wind Farm Limited were engaged in generation activities throughout the year. Carnedd Wen Wind Farm Limited, Triton Knoll Offshore Windfarm Limited and Sofia Offshore Wind Farm Limited were not engaged in generation activities in 2019.

5. Renewables UK segment

5.1.1 Revenue from renewable stations

- Revenue from sale of electricity and gas comprises Innogy Renewables UK Holdings Limited's share of revenues from Greater Gabbard Offshore Winds Limited, Gwynt Y Mor Offshore Wind Farm Limited and Galloper Wind Farm Limited.
- Other elements included are ancillary services and balancing mechanism income.

5.1.2 Other revenue

- Other insurance income to compensate for loss of revenue

5.2 Direct costs

- Direct costs for Generation comprise transportation costs. Transportation costs include network costs and Balancing Services Use of System Charges (BSUoS).

5.3 Indirect costs

- These comprise of station operating and maintenance costs and the Generation segment's share of common costs.

Basis of Preparation

6. Npower Supply UK Segment

6.1 Revenue from sale of electricity and gas

- Revenue comprises the sale of electricity and gas to our domestic and non-domestic energy customers and is stated net of VAT. Government mandated social tariffs and discounts, such as the Warm Home Discount, and other social discounts, have also been deducted from revenue.

6.1.2 Other revenue

- The Npower Supply UK segment has no “other revenues” arising from licensed activities. Other revenues comprise non-licensed activities and are therefore treated as out of scope for the purposes of the CSS.

6.2 Direct fuel (electricity and gas) costs

- Direct fuel costs reflect the costs of procuring electricity and gas to meet customer requirements, as well as losses, unidentified gas, balancing and shaping costs. All of the direct fuel costs are included in the calculation of weighted average cost of electricity/gas (WACO E/G).
- The Npower Supply UK business’ hedging strategy involves the purchase of volumes of electricity and gas in advance of delivery, to reduce the impact of market volatility on the prices offered to customers and the gross margin of the business. Expected volumes are assessed on a portfolio basis, which includes a domestic and non-domestic analysis and transactions are allocated to each segment at the applicable price. The weighted average cost differs between domestic and non-domestic customers because of different hedging approaches, in particular for flexible risk management products.
- The Npower Supply UK business fulfils its wholesale commodity requirements via RWEST on an arm’s length basis. This means the price which independent third parties would have agreed with each other under comparable business conditions. RWEST received fees in relation to Commercial Asset Optimisation and Direct Market Access of £1.8m in 2019 (2018: £2.5m). All licenced activities procure electricity or gas in this fashion.

6.3 Direct costs

- Direct costs for Npower Supply UK are broken down into transportation costs, environmental and social obligation costs and other direct costs.
- Transportation costs include all network costs, gas transportation costs and BSUoS (Balancing Services Use of System) charges. Transportation costs are primarily allocated directly to the customer segment and fuel type to which they relate. The information flows received from the industry processes specifically identify the customer segment and fuel type via the identifier, in the case of electricity costs, or the shipper, in the case of gas costs.

Basis of Preparation

6.3 Direct costs (continued)

- Environmental & social obligation costs for domestic supply include Renewable Obligations (RO), Energy Company Obligation (ECO), Feed in Tariff (FIT) costs, Contracts for Difference (CfD) and Capacity Mechanism (CM) charges. Non-domestic supply includes the costs of ROCs, FIT, CfD and CM.
- FIT costs are allocated based on the segment in which the feed in tariff customers reside. RO is allocated to segments in proportion to respective customer meter volumes. CfD is allocated to segments in proportion to respective customer meter volumes, inclusive of transmission and distribution losses. CM is allocated to segments based on industry settled volumes over the relevant winter peak period (November – February).
- ECO costs are specific to the domestic segment and allocated between domestic gas and electricity customers based on customer numbers.
- Other direct costs include brokers' costs, sales commissions and any wider Smart metering programme costs.

6.4 Indirect costs comprise:

- Indirect costs for Npower Supply UK include operating costs such as sales and marketing, bad debts, cost to serve, billing and metering costs and IT & staff costs.
- Costs that are directly attributable to a segment are charged to that segment in the CSS.
- Customer service costs (such as billing, customer service and metering) are allocated across the segments based on relevant drivers depending on their nature. These drivers include customer numbers, meter points, and number of customer gains and losses.
- Overheads and costs which are not directly attributable to supply segments are allocated between the domestic, non-domestic, gas and electricity segments in proportion to the indirect costs that are directly attributable from an activity based costing (ABC) methodology.

6.5 Npower Supply UK volumes

- Retail volumes are as at the meter point (i.e. net of losses) and include estimates for supply between the last meter read and 31 December 2019.

6.6 Npower Supply UK customer numbers

- For both domestic and business segments, the customer numbers are based on the average number of distinct meter points (MPANs for electricity and MPRNs for gas). Customer numbers are calculated by taking the average monthly position and dividing by 12.

7. Reconciliation of the Npower Supply revenue and adjusted EBIT for year end 2019 as reported in the innogy Annual Report 2019 to revenue and EBIT per the 2019 CSS

Reconciliation of Revenue and Adjusted EBIT ('EBIT') in innogy Annual Report to Revenue and EBIT in Ofgem CSS	Currency	Adjusted EBIT (EBIT) ⁱ	Segmental Revenue
		Npower Supply segment EBIT ⁱⁱ	Npower Supply segment ⁱⁱⁱ
EBIT / Revenue (in Euros) as published in innogy Annual Report 2019	€m	(206)	7,896
Average exchange rate ^{iv}	£1 GBP =	€ 1.139	€ 1.139
EBIT / Revenue (translated to GBP) as per innogy Annual Report	£m	(181) a	6,932
EBIT / Revenue per YE 2019 Ofgem Consolidated Segmental Segment ^v	£m	(170) b	6,017
Variance	£m	11 = b-a	(915)
Reconciled as follows:	Notes		
Remove "Out of Scope" activities/transactions	1	(14)	(26)
Items specifically excluded from the CSS as required by Ofgem guidelines	2	25	(1)
Reclassification between revenue and costs for the CSS	3	-	44
Failed own-use adjustment	4	-	221
Sell back restatement	5	-	(1,153)
Total Variance	£m	11 = b-a	(915)

i - Adjusted EBIT (EBIT) = EBIT (earnings before interest and taxation).

ii - 2019 Adjusted EBIT of the United Kingdom Retail segment as per page 34 of innogy Annual Report 2019.

iii - 2019 Retail external revenue of the United Kingdom as per page 33 of the innogy Annual Report 2019.

iv - Please refer to foreign currency translation exchange rates table on page 118 of the innogy Annual Report 2019.

v - Year end 2019 CSS per page 5 of this document.

The operating result from Renewables Affiliates / JV interests was £103m, with revenue of £290m (2018: £136m EBIT, £300m revenue). These activities did not contribute to adjusted EBIT in the 2019 innogy Annual Report because they have been reported as discontinued operations as they are set to be transferred to RWE AG. Please see page 34 of innogy Annual Report 2019 for further details.

7.1 Reconciliation of the Npower Supply UK revenue and adjusted EBIT – explanatory notes

The financial results of Npower Supply UK are reflected in the consolidated financial statements of its parent company, innogy SE, which are prepared under IFRS and subject to independent external audit.

1. Removal of revenue and adjusted EBIT “out of scope” activities and entities that do not hold a generation or supply licence (see section 2). This includes:
 - Generation Services activities that relate to the provision of consultancy and advisory services to business customers in the supply segment;
 - The results of legal entities that provide energy services such as metering services to third parties or electrical / mechanical installation services to the private and public sector; and
 - The affiliated service company, Innogy Business Services UK Limited (IBS UK), a wholly owned subsidiary of innogy SE, is included within the Retail UK results, however its activities are outside the scope of the CSS.
2. Removal of movements in restructuring costs and unrealised mark to market adjustments that are specifically excluded from the CSS as required by the Ofgem guidelines.
3. Reclassification of revenue and costs in the CSS. This is purely a reclassification with no impact on adjusted EBIT.
4. Realisation of ‘failed own-use’ contracts has resulted in a reduction in revenue. See page 129 of the 2019 innogy Annual Report for further explanation. The impact to EBIT is zero and is merely a reclassification between revenue, cost of sales, other operating income and expenses and hence has been excluded from revenue in the CSS.
5. innogy group accounting policy is to show commodity ‘sell-backs’ as part of Revenue, npower accounting policy is to show commodity ‘sell-backs’ net of commodity purchases through cost of sales. There is no impact on EBIT.

8. Business function template

Prepared in accordance with Annex 2 of the Ofgem Guidelines. As there is no conventional generation included in this CSS, this template has been completed with reference to the Npower Supply UK business only.

Business function	Supply	Notes
Operates and maintains generation assets	-	
Responsible for scheduling decisions	-	
Responsible for interactions with the Balancing Market	P/L	i
Responsible for determining hedging policy	√	ii
Responsible for implementing hedging policy / makes decisions to buy/sell energy	√	iii
Interacts with wider market participants to buy/sell energy	P/L	iii
Holds unhedged positions (either short or long)	√	iv
Procures fuel for generation	-	
Procures allowances for generation	-	
Holds volume risk on positions sold (either internal or external)	√	v
Matches own generation with own supply	-	
Forecasts total system demand	-	
Forecasts wholesale price	√	vi
Forecasts customer demand	√	
Determines retail pricing and marketing strategies	√	
Bears shape risk after initial hedge until market allows full hedge	√	
Bears short term risk for variance between demand and forecast	√	vii

Key

- √ : Function resides and profits/losses recorded in segment
- P/L : Profit/losses of function recorded in segment
- : Neither function nor profit/losses reside in segment

- i - Carried out on behalf of Npower Supply UK by RWEST.
- ii - The overarching hedging and risk management principles are determined by innogy SE for Supply & Renewables. The Npower Supply UK segment determines its own specific hedging strategy and how this is implemented (taking into account the principles set by innogy SE) and uses RWEST as a route for the transactions.
- iii - External commodity transactions are carried out by RWEST on behalf of Npower Supply UK.
- iv - The Npower Supply UK business manages its own decisions in line with innogy SE policy using RWEST as a route for the transactions.
- v - In the short term market this is carried out by RWEST on behalf of Npower Supply UK. In other periods, Npower Supply UK manage the risk themselves.
- vi - Long term views of wholesale prices are produced by innogy SE, medium term by the Npower Supply UK business (aligned with the innogy SE forecast), and shorter term forecasts by RWEST.
- vii - The Npower Supply UK business manages this risk until within-day when it is managed by RWEST based on Npower Supply UK forecasts. All profits/losses sit within Npower Supply UK.