Registered No. NI607246

NIE Finance PLC

31 December 2016

Annual Report and Accounts

CONTENTS

The directors present their Strategic Report for the year ended 31 December 2016.

Business Overview

Principal Activities and Future Developments

The Company's principal activity is to raise finance on behalf of its parent company Northern Ireland Electricity Networks Limited (NIE Networks). In June 2011 the Company issued £400m 6.375% Guaranteed Notes due in 2026 (the Bond) on behalf of NIE Networks (the Guarantor). The payments of all amounts in respect of the Bond are unconditionally and irrevocably guaranteed by the Guarantor. The directors anticipate that the activity of the Company will continue for the foreseeable future.

Financial Review

The results for the year ended 31 December 2016 show a profit of £nil (2015 - £nil).

The Company issued a 15 year £400m bond which carries interest at a coupon of 6.375%. The Bond, which matures on 2 June 2026, has been admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's regulated market. The Company has granted a back-to-back loan of £400m to the Guarantor. Interest is paid on the Bond, and earned on the loan to the Guarantor, at a fixed rate of 6.375%.

Risk Management and Principal Risks and Uncertainties

The Company is committed to successfully managing exposure to risk and to minimising the impact of risk on the achievement of business objectives. The directors acknowledge that they have responsibility for the Company's systems of internal control and risk management.

NIE Networks' risk management framework incorporates the Company and comprises:

- appropriate structures in place to support risk management;
- formal assignment of risk responsibilities to facilitate managing/reporting on individual risks and to ensure specific risks are understood;
- procedures and systems for risk identification, assessment and reporting; and
- on-going monitoring of the effectiveness of risk mitigation actions and controls.

The principal risks and uncertainties that affect the Company are described below.

Capital management and liquidity risk

The Company is financed through debt finance and interest receivable on the loan issued to the Guarantor. The Company's debt finance at 31 December 2016 comprised the Bond which is repayable on 2 June 2026.

The main source of liquidity for the Company is interest receivable on the loan to the Guarantor. The Company has assessed the liquidity and credit risk of the Guarantor and deems this risk to be low. The Guarantor's Annual Report and Accounts at 31 December 2016 indicate that the Guarantor has a cash surplus of £9.3m (2015 - £17.1m) and net assets totalling £293.4m (2015 - £310.1m).

The directors review the Company's capital structure on an annual basis to ensure that the Company will be able to continue as a going concern through optimisation of the debt and equity balance. The Company manages liquidity risk by continuously monitoring forecasts and funding requirements and matching the maturity profiles of financial assets and liabilities.

Interest rate risk

The Bond is denominated in Sterling and carries a fixed interest rate of 6.375%. The interest rate charged on the loan to the Guarantor is also fixed at 6.375%. Therefore, the Company has no interest rate risk and holds no derivative financial instruments in respect of interest rates.

Currency risk
The assets and liabilities of the Company are denominated in Sterling and are therefore not exposed to foreign currency risk.

Credit risk
The Company's principal financial assets are the loan to the Guarantor and the associated interest receivable outlined in note 6 to the accounts. The credit risk in respect of financial assets is considered by the directors to be low given that the Company's financial assets relate to amounts owed by the Guarantor. As noted in the Capital Management and Liquidity Risk section above, this assessment is made based on the cash surplus and net assets of the Guarantor at 31 December 2016.

The Company may be exposed to credit-related loss in the event of non-performance by bank counterparties who hold cash deposits from time to time. This risk is managed through conducting business only with approved counterparties which meet the criteria outlined in NIE Networks' treasury policy.

Going concern
The Company's business activities, together with the principal risks and uncertainties likely to affect its future performance, are described above. As noted above, the Company is financed through a combination of debt finance and interest receivable.

In assessing going concern, the directors have also considered the financial resources of NIE Networks for a 12 month period from the date of approval of the accounts. NIE Networks is deemed to have sufficient resources in order for it to meet its obligations under the terms of its loan with the Company.

On the basis of their assessment of the Company's financial position, which included a review of the Company's projected funding requirements and the cash flow forecasts of NIE Networks, for a period of 12 months from the date of approval of the accounts, the directors have a reasonable expectation that the Company will have adequate financial resources for the 12 month period from the date of approval of the accounts and accordingly adopt the going concern basis in preparing the report and accounts.

By order of the Board

Nicholas Tarrant
Director

Date: 21 March 2017

Registered Office
120 Malone Road
Belfast BT9 5HT
Company Number: NI607246

The directors present their Directors' Report for the year ended 31 December 2016.

In the Directors' Report and accounts, unless specified otherwise, the 'Company' refers to NIE Finance PLC, a public limited company registered in Northern Ireland with registered number NI607246.

The immediate parent undertaking of the Company and the parent of the smallest group for which group accounts are prepared is Northern Ireland Electricity Networks Limited (NIE Networks or the Guarantor). The ultimate parent undertaking and controlling party of the Company, and the parent of the largest group of which the Company is a member and for which group accounts are prepared, is Electricity Supply Board (ESB). A copy of ESB's accounts is available from ESB's registered office at Two Gateway, East Wall Road, Dublin 3, DO3 A995.

The accounts presented are for the year ended 31 December 2016 with the comparative year end being 31 December 2015.

Results and Dividends

The results for the year ended 31 December 2016 show a profit of £nil (2015 - £nil). The Company did not pay any dividends during the year (2015 - £nil) and no dividend in respect of the year has been proposed. The business and financial review together with future business developments is provided in the Strategic Report.

Corporate Governance

Internal control and risk management in relation to the financial reporting process
Strong financial controls are necessary to ensure the integrity and reliability of financial and other information on which the Company relies for day-to-day operations, external reporting and for longer term planning. The Company exercises financial control through a combination of: appropriately qualified and experienced personnel; rigorous business planning processes; an integrated accounting system; and clearly defined approval limits. The internal auditors test the effectiveness of financial controls. The external auditors provide advice on specific accounting and tax issues.

The remit of NIE Networks' Audit & Risk Committee includes the Company. The Audit & Risk Committee reviews:

- the effectiveness of the Company's internal controls and the risk management system;
- the Company's accounts considering the appropriateness of the accounting policies, whether the accounts give a true and fair view, the appropriateness of the going concern assumption and reviewing the significant issues and judgements;
- the external auditors' plan for the scope of the audit of the statutory accounts;
- reports from the external auditor on its audit of the Company's accounts and the recommendations made by the auditor and management's response; and
- a report on the effectiveness and independence of the external auditors.

Directors

There were no changes to the Board of directors during the year. Eddie Byrne, Peter Ewing and Nicholas Tarrant were directors throughout the year.

Directors' Insurance

The Company purchased and maintained directors' and officers' liability insurance throughout the year.

Disclosure of Information to the Auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Having made enquiries of fellow directors and the Company's auditors, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Statutory Auditor

Following a tendering exercise during 2016, the Company's parent undertaking, NIE Networks, has selected PricewaterhouseCoopers LLP (PwC) to replace Ernst & Young LLP during 2017 as statutory auditor for NIE Networks and its subsidiary companies. PwC will be recommended for appointment as statutory auditor for the audit of the statutory accounts for 2017.

Financial Risk Management

Details of the Company's objectives and policies for financial risk management (including liquidity risk and credit risk) are provided in the Risk Management and Principal Risks and Uncertainties section of the Strategic Report.

Directors' Responsibilities Statement

The directors are responsible for preparing the annual report and accounts in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare accounts for each financial period. Under the law the directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company for that period.

In preparing those accounts, the directors are required to:

- present fairly the financial position and financial performance of the Company;
- select suitable accounting policies and then apply them consistently;
- make judgements that are reasonable; and
- prepare the accounts 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 accounts comply with the Companies Act 2006. They 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.

By order of the Board

Nicholas Tarrant
Director

Date: 21 March 2017

Registered Office
120 Malone Road
Belfast BT9 5HT
Company Number: NI607246

We have audited the accounts of NIE Finance PLC for the year ended 31 December 2016, which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 "Reduced Disclosure Framework".

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts 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 accounts. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited accounts 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.

Opinion on the accounts

In our opinion the accounts:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its results for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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
- the accounts are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Michael Kidd (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast

Date: 27 March 2017

The maintenance and integrity of the Northern Ireland Electricity Networks Limited web site is the responsibility of the Directors; 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 accounts since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

INCOME STATEMENT
for the year ended 31 December 2016

	Note	**2016** **£’000**	2015 £’000
Finance income	4	**25,621**	25,614
Finance costs	4	**(25,621)**	(25,614)
Result before tax		**-**	-
Tax		**-**	-
RESULT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDER OF THE COMPANY		**-**	-

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

Other than the results noted above, the Company had no other comprehensive income for the year ended 31 December 2016 or 31 December 2015.

BALANCE SHEET
as at 31 December 2016

	Note	**2016 £'000**	2015 £'000
Non-current assets			
Financial assets	6	**398,400**	398,279
Current assets			
Financial assets	6	**14,811**	14,811
Cash at bank and in hand	7	**50**	50
		14,861	14,861
TOTAL ASSETS		**413,261**	413,140
Current liabilities			
Financial liabilities	8	**14,811**	14,811
Non-current liabilities			
Financial liabilities	8	**398,400**	398,279
TOTAL LIABILITIES		**413,211**	413,090
NET ASSETS		**50**	50
Equity			
Share capital	10	**50**	50
Retained earnings		**-**	-
TOTAL EQUITY		**50**	50

The accounts were approved by the Board of directors and authorised for issue on [21] March 2017.

They were signed on its behalf by:

Nicholas Tarrant
Director

Date: 21 March 2017

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Share capital £'000	Accumulated profits £'000	Total £'000
At 1 January 2015	**50**	-	**50**
Result for the year	-	-	-
Net other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	-	-
At 1 January 2016	**50**	-	**50**
Result for the year	-	-	-
Net other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	-	-
At 31 December 2016	**50**	-	**50**

1. General Information

NIE Finance PLC is a public limited company, incorporated, domiciled and registered in Northern Ireland (registered number NI607246).

The Company is a wholly owned subsidiary of Northern Ireland Electricity Networks Limited (NIE Networks). The results of NIE Finance PLC are included in the consolidated accounts of NIE Networks group (see note 11).

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting Policies

Basis of Preparation

These accounts were prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101) and applicable accounting standards. The Company's accounts are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*, which are requirements relating to cash flows, comparative information, statement of compliance and the management of capital;
b) the requirements of IAS 7 *Statement of Cash Flows* in preparing a cash flow statement for the Company;
c) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* relating to the disclosure of amendments to IFRS that are not yet effective; and
d) the requirements of paragraphs 17 and 18A of IAS 24 *Related Party Disclosures* relating to the disclosure of key management personnel compensation.

The accounting policies applied in preparing the accounts for the year ended 31 December 2016 are set out below.

New and revised accounting standards and interpretations
The following standards and amendments to standards and interpretations, applicable from 1 January 2016, were effective for the period, but did not have a material impact on the accounting policies, financial position or performance of the Company:

- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying Consolidation Exception
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Annual Improvements to IFRSs 2012–2014 Cycle

2. Accounting Policies (continued)

Going Concern
The Company's business activities including financial risk management along with the factors likely to affect its future development are set out within the Strategic Report.

As described in the Strategic Report, on the basis of their assessment of the Company's financial position, which included a review of the Company's projected funding requirements and the cash flow forecasts of NIE Networks for a period of 12 months from the date of approval of the accounts, the directors have a reasonable expectation that the Company will have adequate financial resources for the 12 month period and accordingly continue to adopt the going concern basis in preparing the annual report and accounts.

Financial instruments
Cash at bank and in hand
Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity date of three months or less.

Loan receivables
Loan receivables are initially recorded at fair value. After initial recognition, they are subsequently measured at amortised cost using the effective interest method.

Interest bearing loans
Interest bearing loans are initially recorded at fair value, being the proceeds received net of direct issue costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest method.

Borrowing costs
Borrowing costs are reflected in the income statement in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

3. Operating Costs

Fees payable to the Company's auditor for the audit of the Company's accounts totalled £3,000 (2015 - £3,000). These fees were paid for and borne by the Guarantor on behalf of the Company.

4. Net Finance Costs

	2016	2015
	£'000	£'000
Finance income:		
Interest receivable on loan to immediate parent undertaking	**25,500**	25,500
Amortisation of financing income	**121**	114
Total finance income	**25,621**	25,614
Finance costs:		
Interest payable on £400m bond	**25,500**	25,500
Amortisation of financing charges	**121**	114
Total finance costs	**25,621**	25,614
Net finance costs	**-**	-

All of the Company's income and expenses, and assets and liabilities derive from its sole activity in the UK, being the provision of loan finance to NIE Networks.

5. Employees and Directors

The Company has no employees. Due to the limited activities of the Company no remuneration has been paid to the directors.

6. Financial Assets

	2016 £'000	2015 £'000
Financial assets – non-current		
Loan to immediate parent undertaking	**398,400**	398,279
Financial assets – current		
Interest receivable on loan to immediate parent undertaking	**14,811**	14,811

On 2 June 2011 the Company issued a loan of £400m to NIE Networks, the Company's immediate parent undertaking, net of £2.1m of costs associated with raising finance. The loan has a maturity date of 2 June 2026 and interest is earned at a fixed rate of 6.375%. The loan is neither past due nor impaired.

7. Cash at Bank and in Hand

	2016 £'000	2015 £'000
Cash at bank and in hand	**50**	50

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. The directors consider that the carrying amount of cash and cash equivalents equates to fair value.

8. Financial Liabilities

The Company's objectives, policies and strategies in respect of financial liabilities and capital management are disclosed on pages 3-4 of the Strategic Report.

	2016 £'000	2015 £'000
Current		
Interest payable on £400m bond	**14,811**	14,811
Non-current		
£400m bond	**398,400**	398,279

On 2 June 2011, the Company issued a 15 year £400m bond which carries interest at a coupon of 6.375%. The payments of all amounts in respect of the Bond are unconditionally and irrevocably guaranteed by the Company's immediate parent company, NIE Networks. Interest is due annually in arrears on 2 June.

9. Financial Instruments

The Company's objective is to issue financial instruments in order to raise finance on behalf of its immediate parent undertaking. Therefore, the Company is financed through debt finance and interest receivable. The Company's debt finance at 31 December 2016 comprised the Bond which is repayable on 2 June 2026. The bond issue incurred £2.1m of costs associated with raising finance.

The Company's policies and objectives for financial risk management are discussed in Note 2 and in the Risk Management and Principal Risks and Uncertainties section of the Strategic Report on pages 3 - 4.

Credit risk
The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date. The maximum exposure to credit risk at the reporting date was:

	Note	**2016 £'000**	2015 £'000
Loans and receivables	6	**413,211**	413,090
Cash and cash equivalents	7	**50**	50
		413,261	413,140

The table below summarises the maturity profile of the Bond based on contractual undiscounted payments.

31 December 2016	**On demand £'000**	**Less than 3 months £'000**	**3 to 12 months £'000**	**1 to 5 years £'000**	**Over 5 years £'000**	**Total £'000**
Financial Liabilities						
£400m bond (including interest payable)	**-**	**-**	**25,500**	**102,000**	**527,500**	**655,000**

31 December 2015	**On demand £'000**	**Less than 3 months £'000**	**3 to 12 months £'000**	**1 to 5 years £'000**	**Over 5 years £'000**	**Total £'000**
Financial Liabilities						
£400m bond (including interest payable)	-	-	25,500	102,000	553,000	680,500

Fair values of financial assets and financial liabilities
The Bond, which is listed on the London Stock Exchange's regulated market, had a fair value at 31 December 2016 of £553.6m (2015 - £519.4m) based on current market prices. The Company's £400m back-to-back loan had a fair value at 31 December 2016 of £553.6m (2015 - £519.4m) based on the fair value of the £400m bond.

The Company uses the hierarchy as set out in IFRS 13 Fair Value Measurement. All assets and liabilities for which fair value is disclosed are categorised within the fair value hierarchy described as follows:

Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is not observable.

The fair value of bonds as at 31 December 2016 and 31 December 2015 is considered by the Company to fall within the level 1 fair value hierarchy as defined in IFRS 13. There have been no transfers between levels in the hierarchy during the year.
The directors consider that the carrying amount of other financial assets and liabilities equates to fair value.

10. Share Capital

Allotted and fully paid	**2016 £'000**	2015 £'000
50,000 Ordinary shares of £1 each fully paid up	**50**	50

11. Related Party Disclosures

The immediate parent undertaking of the Company and the parent of the smallest group of which the Company is a member and for which group accounts are prepared is Northern Ireland Electricity Networks Limited. A copy of the immediate parent's accounts is available from its registered office at 120 Malone Road, Belfast, BT9 5HT. The ultimate parent undertaking in the UK is ESBNI Limited. The ultimate parent undertaking and controlling party of the Company and the parent of the largest group of which the Company is a member and for which group accounts are prepared is Electricity Supply Board (ESB), a statutory corporation established under the Electricity (Supply) Act 1927 domiciled in the Republic of Ireland. A copy of ESB's accounts is available from ESB's registered office at Two Gateway, East Wall Road, Dublin 3, DO3 A995.

A full list of the subsidiary undertakings of ESB is included in its accounts.

Transactions between the Company and related parties and the balances outstanding are disclosed below:

	Interest received from related party £'000	**Amounts owed by related party £'000**
Year to 31 December 2016		
Northern Ireland Electricity Networks Limited	**25,500**	**413,211**
Year to 31 December 2015		
Northern Ireland Electricity Networks Limited	25,500	413,090

On 2 June 2011 a loan of £400m, net of £2.1m of costs associated with raising finance, was issued to Northern Ireland Electricity Networks Limited. The loan has a maturity date of 2 June 2026. Further details of this loan are disclosed in note 6.