Northern Ireland Electricity

Unaudited Interim Report & Accounts

Six months ended 30 June 2015

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INTERIM MANAGEMENT REPORT six months to 30 June 2015

The directors present their interim management report for Northern Ireland Electricity Limited (NIE or the Company) and its subsidiary undertakings (the Group) for the six months ended 30 June 2015.

NIE is part of the Electricity Supply Board (ESB), the vertically integrated energy group based in the Republic of Ireland. NIE is an independent business within ESB with its own Board of Directors, management and staff.

The Group's principal activities are:

- constructing and maintaining the electricity transmission and distribution networks in Northern Ireland and operating the distribution network;
- connecting demand and renewable generation customers to the transmission and distribution networks; and
- providing electricity meters in Northern Ireland and providing metering data to suppliers and market operators to enable wholesale and retail settlement.

The transmission and distribution networks comprise a number of interconnected networks of overhead lines and underground cables which are used for the transfer of electricity to c850,000 consumers via a number of substations.

Business Update

Price Control

NIE is subject to periodic reviews in respect of the prices it may charge for use of the transmission and distribution networks in Northern Ireland. NIE's price control in respect of the fifth regulatory period since privatisation (RP5) commenced on 1 April 2012 and will apply for the period to 30 September 2017. The RP5 price control was determined in April 2014 following a referral to the Competition and Markets Authority (CMA).

Financial results

Operating Profit
The Group's operating profit for the six month period fell from £51.8m last year to £39.1m this year reflecting lower revenues due to the phasing of RP5 tariffs. Group operating costs for the period increased marginally from £71.9m to £72.5m.

FFO Interest Cover
The ratio of FFO (funds from operations) to interest paid decreased to 2.8 for the period (six months to 30 June 2014 – 3.2) reflecting the lower operating profits.

Net Assets
The Group's net assets increased from £269.2m as at 31 December 2014 to £273.7m as at 30 June 2015 reflecting profit after tax of £14.3m offset by remeasurement losses (net of tax) on pension scheme liabilities of £9.8m.

Cash Flow
Cash and cash equivalents increased by £3.2m during the period reflecting net cash flows from operating activities of £61.0m offset by investing activity out flows of £57.8m. During the period NIE invested a total of £40.9m (net of customer contributions) in the transmission and distribution networks. Investment to improve reliability of supply and ensure the safety of the network increased during the period, in accordance with a ramp up to deliver the outputs specified in the RP5 determination. Network investment during the period also included investment to facilitate connection of additional renewable generation.

Operations

Safety
Ensuring the safety of employees, contractors and the general public continued to be the number one value at the heart of all NIE's business operations. Good safety management continued during the period resulting in no lost time incidents.

Network Performance
The average number of minutes lost per consumer (CML) through pre-arranged shutdowns for maintenance and construction (Planned CML) for the period was 27, an increase on the same period last year reflecting the increased capital investment programme and the increase in customer demand connections. CML through distribution fault interruptions (Fault CML) for the period was 34, an increase from the same period last year primarily due to adverse weather conditions in early 2015 causing faults on the high voltage distribution network.

Customer Service
The Utility Regulator sets overall and guaranteed standards for NIE's performance. All the overall standards were achieved and there were no defaults against the guaranteed standards for customer services activities delivered during the period. No complaints were taken up by the Consumer Council on behalf of customers (Stage 2 Complaints to the Consumer Council for Northern Ireland) during the period.

Connections
There were 4,900 applications for customer demand connections during the period, representing a small increase on the same period last year.

30MW of large scale renewable generation was connected including the 17.6MW biomass plant, Lisahally Power Station.

24MW of small scale renewable generation was connected comprising single wind turbines, anaerobic digestors, hydro turbines and domestic solar PV microgeneration projects.

The rate of applications for the connection of small scale renewable generation in 2015 continued at the high level experienced during 2014. During the period NIE has continued to make progress with industry stakeholders to establish arrangements to enable further small scale generation to connect to the distribution network.

Sustainability
The recycling rate for all hazardous and non-hazardous waste (excluding excavation from roads and footpaths, civil projects excavation and asbestos removal) continued at a high level with 98% of waste recycled during the period.

KPIs	**Six months ended 30 June** **2015**	2014	Year ended 31 December 2014
Safety:			
Lost time incidents	**None**	None	1
Network Performance:			
Customer Minutes Lost (CML)			
• Planned CML *(minutes)*	**27**	23	50
• Fault CML *(minutes)*	**34**	25	56
Customer Service:			
Overall standards – defaults *(number of)*	**None**	None	None
Guaranteed standards – defaults *(number of)*	**None**	None	None
Stage 2 complaints to the Consumer Council *(number of)*	**None**	2	6
Connections:			
Applications for customer demand connections *(number of)*	**4,900**	4,800	9,800
Renewable generation connected *(MW)*			
• Large scale (> 2MW)	**30**	41	98
• Small scale (< 2 MW)	**24**	34	59
Sustainability:			
Waste recycling rate *(%)*	**98**	98	98

Principal Risks and Uncertainties

The principal risks and uncertainties facing NIE for the remainder of the financial year, which are managed under NIE's risk management framework, are as set out in the Group's latest annual report for the year to 31 December 2014 which is available at www.nie.co.uk.

GROUP INCOME STATEMENT

	Note	Six months ended 30 June **2015** **Unaudited** **£m**	2014 Unaudited £m	Year ended 31 December 2014 Audited £m
Continuing operations				
Revenue	2	**111.6**	123.7	243.8
Operating costs		**(72.5)**	(71.9)	(141.4)
OPERATING PROFIT		**39.1**	51.8	102.4
Finance revenue		**0.1**	77.8	84.3
Finance costs		**(18.8)**	(96.3)	(121.7)
Net pension scheme interest		**(2.0)**	(1.9)	(3.5)
Net finance costs		**(20.7)**	(20.4)	(40.9)
PROFIT BEFORE TAX		**18.4**	31.4	61.5
Tax charge	3	**(4.1)**	(6.6)	(13.3)
PROFIT FOR THE PERIOD / YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**14.3**	24.8	48.2

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June **2015** **Unaudited** **£m**	2014 Unaudited £m	Year ended 31 December 2014 Audited £m
Profit for the financial period / year	**14.3**	24.8	48.2
Other comprehensive (expense) / income:			
Remeasurement (losses) / gains on pension scheme assets and liabilities	**(12.3)**	0.9	(49.0)
Deferred tax credit/(charge) relating to components of other comprehensive income	**2.5**	(0.2)	9.8
Net other comprehensive (expense) / income for the period / year	**(9.8)**	0.7	(39.2)
Total net comprehensive income for the period / year	**4.5**	25.5	9.0

GROUP BALANCE SHEET

	Note	As at 30 June 2015 Unaudited £m	As at 30 June 2014 Unaudited £m	As at 31 December 2014 Audited £m
Non-current assets				
Property, plant and equipment	4	**1,382.2**	1,319.6	1,350.1
Intangible assets	4	**31.4**	36.4	34.1
Derivative financial assets	6	**459.8**	402.9	487.6
		1,873.4	1,758.9	1,871.8
Current assets				
Inventories		**8.0**	6.4	7.7
Trade and other receivables	6	**38.0**	40.3	49.4
Derivative financial assets	6	**10.9**	11.9	11.8
Cash and cash equivalents		**26.9**	37.3	23.7
		83.8	95.9	92.6
TOTAL ASSETS		**1,957.2**	1,854.8	1,964.4
Current liabilities				
Trade and other payables	6	**91.3**	82.6	83.6
Current tax payable		**4.4**	6.1	6.1
Deferred income		**11.2**	10.4	10.6
Financial liabilities:				
Derivative financial liabilities	6	**10.9**	11.9	11.8
Other financial liabilities	6, 7	**11.4**	11.4	18.2
Provisions		**0.6**	1.3	0.5
		129.8	123.7	130.8
Non-current liabilities				
Deferred tax liabilities		**68.9**	77.7	69.7
Deferred income		**309.2**	285.0	298.0
Financial liabilities:				
Derivative financial liabilities	6	**459.8**	402.9	487.6
Other financial liabilities	6, 7	**572.5**	572.2	572.4
Provisions		**8.4**	8.7	8.8
Pension liability	9	**134.9**	84.9	127.9
		1,553.7	1,431.4	1,564.4
TOTAL LIABILITIES		**1,683.5**	1,555.1	1,695.2
NET ASSETS		**273.7**	299.7	269.2
Equity				
Share capital		**36.4**	36.4	36.4
Share premium		**24.4**	24.4	24.4
Capital redemption reserve		**6.1**	6.1	6.1
Accumulated profits		**206.8**	232.8	202.3
TOTAL EQUITY		**273.7**	299.7	269.2

The accounts were approved by the Board of directors and signed on its behalf by:

Nicholas Tarrant
Director

Date: 24 August 2015

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 January 2014	**36.4**	**24.4**	**6.1**	**207.1**	**274.0**
Profit for the year	-	-	-	48.2	48.2
Net other comprehensive expense for the year	-	-	-	(39.2)	(39.2)
Total net comprehensive income for the year	-	-	-	9.0	9.0
Gain on reapportionment of exiting pension scheme participant's assets	-	-	-	0.3	0.3
Deferred tax relating to gain on reapportionment of pension assets	-	-	-	(0.1)	(0.1)
Dividends to the shareholder	-	-	-	(14.0)	(14.0)
At 1 January 2015	**36.4**	**24.4**	**6.1**	**202.3**	**269.2**
Profit for the period	-	-	-	14.3	14.3
Net other comprehensive expense for the period	-	-	-	(9.8)	(9.8)
Total net comprehensive income for the period	-	-	-	4.5	4.5
At 30 June 2015	**36.4**	**24.4**	**6.1**	**206.8**	**273.7**

	Share Capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 January 2014	**36.4**	**24.4**	**6.1**	**207.1**	**274.0**
Profit for the period	-	-	-	24.8	24.8
Net other comprehensive income for the period	-	-	-	0.7	0.7
Total net comprehensive income for the period	-	-	-	25.5	25.5
Gain on reapportionment of exiting pension scheme participant's assets	-	-	-	0.2	0.2
Deferred tax relating to gain on reapportionment of pension assets	-	-	-	-	-
At 30 June 2014	**36.4**	**24.4**	**6.1**	**232.8**	**299.7**

GROUP CASH FLOW STATEMENT

	Six months ended 30 June		Year ended 31 December
	2015 Unaudited £m	2014 Unaudited £m	2014 Audited £m
Cash flows from operating activities			
Profit for the period/year	**14.3**	24.8	48.2
Adjustments for:			
Tax charge	**4.1**	6.6	13.3
Net finance costs	**20.7**	20.4	40.9
Depreciation of property, plant and equipment	**27.0**	26.1	53.0
Release of customers' contributions and grants	**(5.1)**	(4.9)	(10.6)
Amortisation of intangible assets	**2.6**	2.3	5.1
Contributions in respect of property, plant and equipment	**17.4**	14.9	33.5
Defined benefit pension charge less contributions paid	**(7.4)**	(7.5)	(15.9)
Net movement in provisions	**(0.3)**	-	(0.7)
Operating cash flows before movement in working capital	**73.3**	82.7	166.8
Decrease in working capital	**17.4**	12.4	6.8
Cash generated from operations	**90.7**	95.1	173.6
Interest received	**0.1**	0.1	84.3
Interest paid	**(25.6)**	(25.7)	(121.5)
Current taxes paid	**(4.2)**	(6.4)	(11.1)
Net cash flows from operating activities	**61.0**	63.1	125.3
Cash flows from investing activities			
Purchase of property, plant and equipment	**(57.8)**	(57.5)	(118.9)
Purchase of intangible assets	**-**	(0.1)	(0.5)
Net cash flows used in investing activities	**(57.8)**	(57.6)	(119.4)
Cash flows used in financing activities			
Receipt of interest accretion on back to back swaps	**-**	77.7	-
Payment of interest accretion on RPI swaps	**-**	(77.7)	-
Dividends paid to shareholder	**-**	-	(14.0)
Net cash flows used in financing activities	**-**	-	(14.0)
Net increase/(decrease) in cash and cash equivalents	**3.2**	5.5	(8.1)
Cash and cash equivalents at beginning of period / year	**23.7**	31.8	31.8
Cash and cash equivalents at end of period / year	**26.9**	37.3	23.7

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, short-term bank deposits and bank overdrafts.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. Basis of Preparation

The condensed interim accounts for the period ended 30 June 2015 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" and the Disclosure and Transparency Rules of the Financial Conduct Authority.

The condensed interim accounts consolidate the results of Northern Ireland Electricity Limited (NIE or the Company) and its subsidiary undertakings, NIE Networks Services Limited and NIE Finance PLC (the Group).

The condensed interim accounts have been prepared on the basis of the accounting policies set out in the accounts for the year ended 31 December 2014.

The following amendments to existing standards and interpretations were effective for the period, but had either no impact or no material impact on the Group's accounts:

Amendments to IAS19 – Defined Benefit Plans: Employee Contributions; Annual Improvements to IFRSs 2010-2012 Cycle – various standards; and Annual Improvements to IFRSs 2011-2013 Cycle – various standards.

The condensed interim accounts have been prepared on the going concern basis as the directors, having considered available relevant information, have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for a period of 12 months from the date of approval of the interim report and accounts.

The condensed interim accounts have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on "Review of Interim Financial Information performed by the Independent Auditor of the Entity".

The information shown for the year ended 31 December 2014 does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and has been extracted from the Group's report for the year ended 31 December 2014, which has been filed with the Registrar of Companies. The report of the auditors on the accounts contained within the Group's report for the year ended 31 December 2014 was unqualified and did not contain a statement under either Section 498(2) or Section 498(3) of the Companies Act 2006 regarding inadequate accounting records or a failure to obtain necessary information and explanations.

2. Revenue

	Six months ended 30 June		Year ended 31 December
	2015	2014	2014
	£m	£m	£m
Revenue:			
Sales revenue	**106.2**	118.8	233.7
Amortisation of customer contributions from deferred income	**5.4**	4.9	10.1
	111.6	123.7	243.8
Interest receivable	**0.1**	77.8	84.3
	111.7	201.5	328.1

The Group's operating activities, which are described in the interim management report, comprise one operating segment.

3. Tax Charge

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m	Year ended 31 December 2014 £m
Current tax charge			
UK corporation tax at 20.5% (2014 – 22.0%)	**2.4**	4.5	9.3
Total current tax	**2.4**	4.5	9.3
Deferred tax charge			
Origination and reversal of temporary differences in current period	**1.7**	2.1	4.1
Origination and reversal of temporary differences relating to prior periods	**-**	-	(0.1)
Total deferred tax charge	**1.7**	2.1	4.0
Total tax charge	**4.1**	6.6	13.3

4. Capital Expenditure

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m	Year ended 31 December 2014 £m
Property, plant and equipment	**59.5**	58.1	115.4
Intangible assets - computer software	**-**	0.2	0.5
	59.5	58.3	115.9

No assets were disposed of by the Group during the period (2014 - £nil).

5. Capital commitments

At 30 June 2015 the Group had contracted future capital expenditure in respect of property, plant and equipment of £23.3m (June 2014 - £5.0m) and computer software assets of £0.3m (June 2014 - £0.7m).

6. Financial Instruments

An overview of financial instruments, other than cash and short-term deposits, held by the Group as at 30 June 2015 is as follows:

As at 30 June 2015	**Loans and receivables £m**	**Fair value profit or loss £m**
Financial assets:		
Trade and other receivables	38.0	-
Interest rate swaps	-	10.9
Total current	**38.0**	**10.9**
Interest rate swaps	-	459.8
Total non-current	**-**	**459.8**
Total financial assets	**38.0**	**470.7**
Financial liabilities:		
Trade and other payables	91.3	-
Interest rate swaps	-	10.9
Interest bearing loans and borrowings	11.4	-
Total current	**102.7**	**10.9**
Interest rate swaps	-	459.8
Interest bearing loans and borrowings	572.5	-
Total non-current	**572.5**	**459.8**
Total financial liabilities	**675.2**	**470.7**

The directors consider that the carrying amount of financial instruments equals fair value.

NIE has held a £550m portfolio of inflation linked interest rate swaps since December 2010. On 22 June 2014 the Company, and its counterparty banks, together agreed a restructuring of the swaps, including amendments to certain critical terms. These changes included an extension of the mandatory break period in the swaps from 2015 to 2022, including immediate settlement of accretion payments of £77.7m (previously due for payment in 2015), amendments to the fixed interest rate element of the swaps and an increase in the number of swap counterparties. The settlement of accretion payments in 2014 was recognised within finance costs in the income statement for that period. Following the restructuring accretion payments will be made every five years, starting in 2018, with remaining accretion paid at maturity.

At the same time that the restructuring took effect NIE entered into RPI linked interest rate swap arrangements with ESBNI Limited, the immediate parent undertaking of NIE, which have identical matching terms to the restructured swaps. The effect of these back to back matching swaps is that there is no net effect on the financial statements of NIE and that any risk to financial exposure is borne by ESBNI Limited.

Positive fair value movements of £22.4m arose on the swaps in the six months ended 30 June 2015 (June 2014: negative fair value movements of £104.3m) and were recognised within finance costs in the income statement, as hedge accounting was not available.

The fair value of interest rate swaps has been valued by calculating the present value of future cash flows, estimated using forward rates from third party market price quotations. The Company uses the hierarchy as set out in IFRS 13 Fair Value Measurement for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

6. Financial instruments (continued)

The fair value of interest rate swaps as at 30 June 2015 is considered by the Company to fall within the level 2 fair value hierarchy. The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between level 1 or 3 of the hierarchy during the period.

7. Net Debt

	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Cash at bank and in hand	**26.9**	37.3	23.7
Debt due before 1 year:			
Interest payable on £175m bond	**(9.4)**	(9.4)	(3.4)
Interest payable on £400m bond	**(2.0)**	(2.0)	(14.8)
	(11.4)	(11.4)	(18.2)
Debt due after 1 year:			
£175m bond	**(174.3)**	(174.1)	(174.2)
£400m bond	**(398.2)**	(398.1)	(398.2)
	(572.5)	(572.2)	(572.4)
Total net debt	**(557.0)**	(546.3)	(566.9)

8. Pension Commitments

	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Market value of assets	**1,026.0**	1,001.0	1,025.6
Actuarial value of liabilities	**(1,160.9)**	(1,085.9)	(1,153.5)
Net pension liability	**(134.9)**	(84.9)	(127.9)

Changes in the market value of assets

	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Market value of assets at beginning of the period / year	**1,025.6**	990.1	990.1
Interest income on scheme assets	**17.7**	21.4	42.6
Contributions from employer	**11.7**	12.0	26.7
Contributions from scheme members	**0.1**	0.3	0.5
Benefits paid	**(28.1)**	(28.2)	(66.6)
Administration expenses paid	**(0.6)**	(0.4)	(1.4)
Remeasurement (losses) / gains on scheme assets	**(0.4)**	5.6	33.4
Re-apportionment of exiting participant's assets	**-**	0.2	0.3
Market value of assets at end of the period / year	**1,026.0**	1,001.0	1,025.6

8. Pension Commitments (continued)

Changes in the actuarial value of liabilities

	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Actuarial value of liabilities at beginning of the period / year	**1,153.5**	1,081.7	1,081.7
Interest expense on pension liability	**19.7**	23.3	46.1
Current service cost	**3.6**	4.1	7.9
Curtailment loss	**0.1**	-	1.9
Contributions from scheme members	**0.1**	0.3	0.5
Benefits paid	**(28.1)**	(28.2)	(66.6)
Settlement cost in relation to bulk transfer	**0.1**	-	(0.4)
Actuarial losses on scheme liabilities	**11.9**	4.7	82.4
Actuarial value of liabilities at end of the period / year	**1,160.9**	1,085.9	1,153.5

9. Related Party Transactions

During the period ended 30 June 2015, the Group contributed £13.4m (2014 - £12.6m) to the Northern Ireland Electricity Pension Scheme.

The immediate parent undertaking of the Group and the ultimate parent company in the UK is ESBNI Limited (ESBNI). The ultimate parent undertaking and controlling party of the Group and the parent of the smallest and largest group of which NIE 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 27 Lower Fitzwilliam Street, Dublin 2.

Principal subsidiaries of ESB are related parties of the Group. Transactions between the Group and related parties are disclosed below:

	Revenue from related party £m	**Charges from related party £m**	**Other transactions with related party £m**	**Amounts owed by related party at period end £m**	**Amounts owed to related party at period end £m**
Six months ended 30 June 2015					
ESBNI	**-**	**-**	**-**	**-**	**-**
Other ESB subsidiaries	**9.5**	**(2.0)**	**-**	**1.2**	**1.0**
	9.5	**(2.0)**	**-**	**1.2**	**1.0**
Six months ended 30 June 2014					
ESBNI	-	-	77.7	-	-
Other ESB subsidiaries	10.5	(2.0)	-	1.2	1.1
	10.5	(2.0)	77.7	1.2	1.1

The amount of £77.7m in other transactions above relates to interest accretion received from ESBNI in relation to the restructuring of interest rate swaps in the prior period (see note 6).

10. Contingent Liabilities

In the normal course of business, the Group has contingent liabilities arising from claims made by third parties and employees. Provision for a liability is made when the directors believe that it is probable that an outflow of funds will be required to settle the obligation where it arises from an event prior to the period end.

In 2014 the Lands Tribunal of Northern Ireland (the Tribunal) ruled that compensation was payable in respect of two out of four test cases heard by the Tribunal where claims were made by third parties in relation to potential diminution in the value of land due to the existence of electricity apparatus. Total compensation awarded for two of the cases was £45,500. No award of compensation was made in the other two cases.

Although the Tribunal stated that evidence of a loss of value was insufficient, compensation was awarded in both cases using an 'intuitive approach'. As the Company knows of no precedent for the use of such an approach, the Company has lodged an appeal to the Court of Appeal. Until the outcome of this appeal, which is expected to be heard in autumn 2015, it remains uncertain as to whether a liability will arise. Therefore the Company has not provided for any compensation awarded by the Tribunal in these accounts.

In the event that any compensation is payable following the Court of Appeal ruling, NIE will seek to recover the payment through a mechanism in the regulatory framework.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that to the best of their knowledge:

(i) the interim accounts have been prepared in accordance with IAS 34 "Interim Financial Reporting" and give a true and fair view of the assets, liabilities, financial position and profit of the Group for the six months to 30 June 2015; and

(ii) the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules.

By order of the Board

Nicholas Tarrant
Director

24 August 2015