Northern Ireland Electricity Networks

ANNUAL REPORT & FINANCIAL STATEMENTS

12 months ended 31 December 2019

CONTENTS

2019 AT A GLANCE

- Continued focus on the health and safety of staff, contractors and the general public
- Cumulative Renewable generation connected to the electricity network reached 1.67GW
- 7% reduction in customer complaints through continued focus on customer service
- Awarded Best Apprenticeship Scheme for 2019 at the UK Chartered Institute of Personnel and Development People Management Awards
- Successful response to network damage resulting from adverse weather conditions with 100% of affected customers restored within 24 hours
- Significant reduction in Customer Minutes Lost
- Ongoing investment in the network in line with the RP6 price control
- Replacement of 38,000 meters under the meter recertification programme
- Operating profit of £110.3m and profit after tax of £59.1m
- Over £144m contributed to the Northern Ireland economy through employment of circa 1,200 people and payments to local businesses and authorities
- Actively engaged with NI stakeholders on the development of a future energy framework for Northern Ireland

GROUP STRATEGIC REPORT

The directors present their annual report and financial statements for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (the Group) for the year ended 31 December 2019.

The Board of directors of the Company who served during the year are outlined in the Group Directors' Report on page 23.

NIE Networks' subsidiary companies are NIE Networks Services Limited and NIE Finance PLC.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS.

The Company financial statements have been prepared in accordance with FRS 101 – Reduced Disclosure Framework and the Company has taken advantage of certain disclosure exemptions allowed under this standard.

The financial statements of the Group and the Company have been prepared under the historical cost convention, as modified by the revaluation of financial derivative instruments at fair value through profit or loss.

Ownership

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

Business Model

Principal Activities and Regulation

NIE Networks is the owner of the transmission and distribution networks in Northern Ireland and the distribution network operator. SONI Limited (SONI), a separate company owned by EirGrid plc, is the transmission system operator and is responsible for transmission system design and planning. 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 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 market settlement.

NIE Networks is a regulated company and its business activities are regulated by the Northern Ireland Authority for Utility Regulation (the Utility Regulator or the UR). Under its Transmission and Distribution licences NIE Networks is required to develop, maintain and, in the case of the distribution system, operate an efficient, co-ordinated and economical system of:

- electricity transmission - the bulk transfer of electricity across the high voltage network of overhead lines, underground cables and associated equipment mainly operating at 275kV and 110kV; and
- electricity distribution - the transfer of electricity from the high voltage transmission network and its delivery to consumers across a network of overhead lines, underground cables and associated equipment operating at 33kV, 11kV and lower voltages.

NIE Networks manages the assets of the transmission and distribution networks on an integrated basis.

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 around 880,000 consumers via a number of substations. This network ensures that electricity produced by generators is delivered to consumers through their nominated supplier. NIE Networks does not generate, buy or sell electricity, or send any bills to electricity consumers (apart from charges for new or upgraded connections to the network).

During the year an estimated 7.6TWh of electricity was transmitted and distributed to consumers in Northern Ireland. There are 2,200km of transmission network, 47,000km of distribution network and over 300 major substations. NIE Networks' transmission system is connected to that of RoI through a 275kV interconnector and to that in Scotland via the Moyle Interconnector. There are also two standby 110kV connections to RoI.

In addition to its core network activities, NIE Networks provides meters to consumers and takes meter readings. It is responsible for managing market registration processes and the provision and maintenance of accurate data to support the operation of the competitive retail and wholesale electricity markets.

Market Registration and Change of Supplier processes facilitate consumers switching suppliers in a timely manner in accordance with retail market rules and aggregated data is provided to the Single Electricity Market Operator on a daily basis for settlement of the wholesale market.

The Group also provides connections to the network for customers requiring a new electricity supply (demand connections) and those seeking to generate electricity (generation connections). The market for new connections has been fully open to competition since March 2018. For 'contestable' elements of connections, customers can now choose whether to accept a quotation from NIE Networks or to engage an accredited Independent Connection Provider (ICP) to design and construct the connection.

Revenues

The Group derives its revenue principally through charges for use of the distribution system and Public Service Obligation (PSO) charges levied on electricity suppliers as well as charges for transmission services (mainly for use of the transmission system) levied on SONI. Revenue through charges for new demand and generation connections is received from the customer in accordance with NIE Networks' Statement of Connection Charges, which is revised at least annually.

Price controls

NIE Networks is subject to periodic reviews in respect of the prices it may charge for use of the transmission and distribution networks in Northern Ireland. Regulatory Period 6 (RP6) commenced on 1 October 2017 and will apply for the period to 31 March 2024.

The RP6 price control sets ex-ante allowances of £735 million for capital investment and £481 million in respect of operating costs (stated at 2018-19 prices). Additional allowances in respect of major transmission load growth projects will be considered on a case-by-case basis, for example, the North-South Interconnector. The allowances will be adjusted to reflect 50% of the difference between the allowances and actual costs incurred. NIE Networks' Connections business is largely outside the scope of the RP6 price control following the introduction of contestability as referred to above.

The RP6 baseline rate of return of 3.14% plus inflation (weighted average cost of capital based on pre-tax cost of debt and post-tax cost of equity) will be adjusted to reflect the cost of new debt raised in RP6. This mechanism is new for RP6, departing from the former approach of setting an ex-ante allowance, and will align the cost of debt component of the return more closely with prevailing market conditions at the time of drawdown of new debt.

Strategy

NIE Networks' strategic direction is determined by obligations under its Transmission and Distribution licences as well as a commitment to the development of a low carbon energy framework for Northern Ireland. Its vision is to be a high-performing electricity networks company that makes a positive contribution to the local community. Its mission is to distribute electricity in a safe, reliable, efficient and environmentally sound manner. NIE Networks' values are focussed on: ensuring the safety of employees, contractors, customers and the general public, customer service, developing employees, being cost effective and showing integrity and respect in all its business dealings.

NIE Networks' strategic objectives are:

- the health and safety of employees, contractors and the general public;
- strong customer service performance by providing a reliable and effective electricity service for Northern Ireland and an excellent experience for customers engaging with the business;
- continued investment in Northern Ireland's electricity infrastructure to: replace worn assets; facilitate increased customer demand; improve the reliability of the network; and facilitate the connection of further renewable generation;
- performance through people by ensuring a working environment that maximises the potential of employees;
- delivery of better performance for stakeholders through a competitive and transparent cost base;
- maintenance of a strong investment grade credit rating;
- enabling Northern Ireland's transition to an effective, sustainable and affordable low carbon energy system; and
- effective stakeholder engagement.

NIE Networks seeks to discharge its statutory and regulatory obligations in a manner which meets these strategic objectives.

Financial Review

Financial Key Performance Indicators (KPIs)

Operating Profit
The Group's operating profit as reported in the financial statements was £110.3m for the year to 31 December 2019, an increase of £1.2m on the previous year. Group revenue of £276.3m has increased by £0.5m from the previous year. Group operating costs of £166.0m are largely in line with operating costs of £166.7m in 2018.

FFO Interest Cover
The Group considers the ratio of FFO (funds from operations) to interest paid to be one of the key internal measures of the Group's financial health. FFO interest cover indicates the Group's ability to fund interest payments from cash flows generated by operations and is a measure used by external reference agencies when assessing the Group's credit rating. The ratio, as shown in note 6 to the financial statements, at 4.1 times for the year (2018 - 3.6 times) is above the target level of 3.0 times.

Net Assets
The Group's net assets of £390.7m increased by £17.1m on the previous year largely reflecting profit after tax of £59.1m offset by re-measurement losses (net of tax) of £18.3m on net pension scheme liabilities and a dividend paid to the shareholder during the year of £23.7m.

Cash Flow
Cash and cash equivalents decreased by £21.4m during the year reflecting net cash flows from operating activities of £114.3m together with a drawdown of the Group's Revolving Credit Facility (RCF) of £5.0m, offset by investing activity out flows of £114.1m (reflecting the Group's continued investment in the network), the dividend paid of £23.7m and repayment of £2.9m of lease liabilities recognised upon adoption of IFRS 16.

Net cash flows generated from operating activities of £114.3m are £23.6m higher than the £90.7m generated during 2018 reflecting the Group's increased operating profit during the year together with lower interest payments and a smaller movement in working capital requirements between 2018 and 2019.

Financial Risk Management

The main financial risks faced by the Group relate to liquidity, funding, investment and financial risk, including interest rate and counterparty credit risk. The Group's objective is to manage financial risks at optimum cost. The Group employs a continuous forecasting and monitoring process to manage risk.

Capital Management and Liquidity Risk
The Group is financed through a combination of equity and debt finance. Details in respect of the Group's equity are shown in the Statement of Changes in Equity and in note 23 to the financial statements.

The Group's debt finance at the year end comprised bonds of £350.0m and £400.0m (£348.4m and £398.8m respectively net of issue costs) which are due to mature in October 2025 and June 2026 respectively and £5.0m drawn down from a £120.0m Revolving Credit Facility (RCF) from ESB which is due to mature in December 2021.

The Group's liquidity risk is assessed through the preparation of cash flow forecasts. The Group's policy is to have sufficient funds in place to meet funding requirements for the next 12 - 18 months.

The Group's policy in relation to equity is to finance equity dividends from accumulated profits. In relation to debt finance, the Group's policy is to maintain a prudent level of gearing.

NIE Networks' licences contain various financial conditions which relate principally to the availability of financial resources, borrowings on an arm's length basis, restrictions on granting security over the Group's assets and the payment of dividends. The Group is in compliance with these conditions.

The Group maintained its strong investment grade credit rating from Standard & Poor's during the year.

Interest Rate Risk
The £350.0m and £400.0m bonds are denominated in sterling and carry fixed interest rates of 2.500% and 6.375% respectively.

Given that 99.3% of the Group's total borrowings carry a fixed interest rate, the Group does not consider that it is significantly exposed to interest rate risk.

Since December 2010, NIE Networks has held a £550m portfolio of RPI linked interest rate swaps (the RPI swaps). The RPI swaps were put in place by the Viridian Group (the Group's previous parent undertaking) in 2006 to better match NIE Networks' debt and related interest payments with its inflation-linked regulated assets and associated revenue – in the nature of economic hedge. As part of the acquisition of NIE Networks by ESB in 2010, the swaps were novated to NIE Networks.

Following a restructuring in 2014, the swaps have a mandatory break period in 2022. At the same time that the restructuring took effect, and in order to achieve a back to back matching arrangement, the Company entered into RPI linked interest rate swaps with ESBNI Limited (ESBNI), the immediate parent undertaking of the Company, which have identical matching terms to the restructured swaps. The back to back matching swaps with ESBNI ensure that there is no net effect on the financial statements of the Company and that any risk to financial exposure is borne by ESBNI. Further details of the swaps, including fair values, are disclosed in note 18 to the financial statements.

Credit Risk
The Group's principal financial assets are cash and cash equivalents, trade and other receivables (excluding prepayments and accrued income) and other financial assets as outlined in the table below:

Year to 31 December	**2019 £m**	2018 £m
Cash and cash equivalents	**9.0**	30.4
Trade and other receivables (excluding prepayments and accrued income)	**49.7**	51.6
Other financial assets – current and non-current	**506.6**	499.4
	565.3	581.4

The Group's credit risk in respect of trade receivables from licensed electricity suppliers is mitigated by appropriate policies with security received in the form of cash deposits, letters of credit or parent company guarantees. With the exception of certain public bodies, payments in relation to new connections or alterations are received in advance of the work being carried out. Payments received on account are disclosed in note 16 to the financial statements.

Other financial assets comprise RPI linked interest rate swap arrangements entered into with ESBNI, a wholly owned subsidiary of ESB, as outlined above. The counterparty risk from ESBNI is not considered significant given ESB's investment in the Group and ESB's strong investment grade credit rating.

The Group may be exposed to credit-related loss in the event of non-performance by bank counterparties. This risk is managed through conducting business only with approved counterparties which meet the criteria outlined in the Group's treasury policy.

Further information on financial instruments is set out in the notes to the financial statements.

Going Concern

The Group's business activities, together with the principal risks and uncertainties likely to affect its future performance, are described in this Group Strategic Report. As noted in the section on capital management and liquidity risk, the Group is financed through a combination of equity and debt finance.

On the basis of their assessment of the Group's financial position, which included a review of the Group's projected funding requirements for a period of 12 months from the date of approval of the financial statements; the directors have a reasonable expectation that the Group will have adequate financial resources for the 12-month period. In light of the current Covid-19 pandemic, the directors have considered the possible financial impact on the Group's financial position. While the Covid-19 situation is evolving at a fast pace, the directors are of the opinion that the Group has adequate financial resources for the 12-month period. Accordingly the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Corporate Social Responsibility

NIE Networks provides a vital service to every home, farm and business in Northern Ireland as part of its day-to-day work in delivering electricity supplies. Through its mainstream business activities and various specific initiatives, the Group seeks to make a positive impact on the communities in which it operates.

In previous Annual Reports, details of NIE Networks' principal Corporate Social Responsibility (CSR) initiatives in relation to public safety, customer care, educational outreach, community and charitable giving were included in a separate CSR section. As each of these themes are of strategic importance and are embedded within NIE Networks' day-to-day activities, progress on each during 2019 is reported within the Operational Review.

Operational Review

Operational KPIs

Throughout this Operational Review reference is made to the KPIs used to measure progress towards achieving operational objectives. Performance during the year is summarised below:

KPIs – Year to 31 December	**2019**	2018
Health & Safety:		
Lost time incidents *(number of)*	**3**	2
Network Performance:		
Customer Minutes Lost (CML)		
• Planned CML *(minutes)*	**45**	41
• Fault CML *(minutes)*	**38**	53
Customer Service:		
Overall standards – defaults *(number of)*	**None**	None
Guaranteed standards – defaults *(number of)*	**None**	None
Stage 2 complaints to the Consumer Council *(number of)*	**2**	1
Connections:		
Customer demand connections completed *(number of)*	**4,100**	5,095
Sustainability:		
Waste recycling rate *(%)*	**98**	97
Staffing:		
Headcount (at 31 December)	**1,216**	1,180
Absenteeism	**3.27%**	3.25%

Health and Safety

Ensuring the health, safety and wellbeing of employees, contractors and the general public continues to be the number one value at the core of all NIE Networks' business operations. The aim is to provide a zero-harm working environment where risks to health and safety are assessed and controlled. This is achieved by the promotion of a positive health and safety culture and adherence to legislation and recognised safety standards. The approach to safety is based on the principles of: Leadership, Competence, Compliance and Engagement.

The health and safety management system is accredited to ISO 45001 standard and based on best practice guidance from the Health and Safety Executive Northern Ireland (HSENI) and the Institute of Directors. NIE Networks continues to engage with various organisations including the HSENI, the NI Utilities Safety Group, the NI Roads Authority and Utility Committees, the NI Environment Agency (NIEA) and various Energy Networks Association (ENA) health and safety committees to share information and improve safety performance and learning.

The target for lost time incidents continues to be set at zero: there were three incidents during the year (2018 - two) each of which occurred during non-operational, lower risk activities.

Safety Engineers are aligned with organisational structures through a 'Business Partner' relationship which facilitates integration of skills and allows influence and support. During 2019 the Safety Team continued to support all business units with particular focus on the following areas:

- the reporting, analysis and investigation of "near miss" events which is key to reducing harm. The quality of reports continued to improve with an increase in reports detailing "unsafe acts". Each report is analysed by a team of Safety Engineers to ensure consistency and accurate follow-up, enabling further improvements in equipment and operational procedures to be identified and addressed;

- formal incident investigation procedures with monthly reporting to the Health and Safety Management Committee;

- two external ISO audits were completed with zero non-conformances identified;

- continued programme of formal safety training for employees and contractors including: safety seminars delivered to all staff to increase risk awareness and perception, the publication of a monthly Safety newsletter and implementation of a contractor management Safety Improvement Plan;

- a further 17 employees attained certificates in Construction Health and Safety from the National Examination Board in Occupational Safety and Health (NEBOSH) bringing the total within the Group to 112 employees;

- over 4,300 site safety inspections completed, the focus of which was to provide coaching and to encourage good site behaviours while ensuring compliance with safety rules. In line with the Leadership and Engagement principles these were completed by a range of staff including the Managing Director, Executive Committee members, Business Unit Managers and front-line Managers;

- continued focus on identifying the causes of road traffic incidents including post-incident driver appraisals and training where required; and

- a programme of health and wellbeing checks, health screening and lifestyle advice was made available to all staff to coincide with "European Health & Safety Week".

Updates on safety performance are provided to each Health and Safety Management Committee, Executive Committee and Board meeting. This provides a level of regular assurance against objectives agreed in the annual Health, Safety and Wellbeing Business Plan.

Electricity provides a vital service for everyone in Northern Ireland, however it is dangerous and NIE Networks aims to continually heighten and improve the awareness of those in the close vicinity of the electricity network. NIE Networks' Public Safety programme addresses the Group's legislative obligations in respect of safety and involves employees from across the Group.

During 2019 approximately 25,000 farmers and contractors received safety advice from NIE Networks at farm safety events. Safety presentations were made to contractors in the transport industry and to other utilities and their contractors.

NIE Networks' "Kidzsafe" programme continued with over 10,000 schoolchildren participating in the interactive programme to educate and raise awareness of the dangers of the electricity network in an effort to reduce incidences of electricity-related injuries. NIE Networks continued to utilise the dedicated safety training facility for children and young people, known as RADAR (Risk Avoidance and Danger Awareness Resource).

The Group continued to work with the Police Service of Northern Ireland (PSNI), the network operators in Great Britain and other utilities in Northern Ireland to address the dangerous issue of metal theft. Thieves targeting electrical installations endanger themselves, employees and the wider public.

NIE Networks' safety advice is supplemented by a proactive media campaign, including social media, with information available on its website at www.nienetworks.co.uk/safety.

Network Performance

The provision of a safe, reliable and responsive electricity service, which endeavours to meet the standards customers expect, is a key priority for NIE Networks.

During 2019 NIE Networks continued to efficiently manage outages required for essential maintenance and development to minimise the occasions and length of time that customers were off supply. Performance of the distribution network is measured in its availability, the number of minutes lost per customer (CML).

CML due to planned outages is the average number of minutes lost per customer for the period through pre-arranged shutdowns for maintenance and construction. The average number of planned CML for 2019 was 45 minutes (2018 - 41 minutes) reflecting the RP6 programme of works. The average number of CML due to faults on the distribution network in 2019 was 38 minutes (2018 - 53 minutes), a significant improvement from the previous year mainly due to favourable weather conditions. Each measure is calculated excluding incidences where Severe Weather Exemptions have been applied as agreed with the Utility Regulator.

The Utility Regulator sets overall and guaranteed standards of performance. The majority apply to services provided, for example the timely restoration of customers' supplies following an interruption, and prescribed times for responding to customers' voltage complaints. During the year, each of the overall standards was achieved. In 2019 there were no defaults against Guaranteed Standards of Performance for customer service activities delivered (2018 - none). During the year 94.6% (2018 – 94.2%) of electricity supplies were restored within three hours, within the regulatory standard of 87%.

NIE Networks continues to test and confirm the robustness of its emergency response capabilities during severe weather events in order to effectively restore supply to all customers. The significant commitment from staff across the business helps to ensure that NIE Networks manages effectively this very important aspect of the business with every employee having an "escalation" role in addition to their normal day-to-day role.

During the year there were two occasions (wind and gales in mid-March and also in mid-December) where adverse weather caused damage to the network and affected several thousand customers' supplies. On each of these occasions 100% of affected customers were restored within 24 hours.

Customer Service and Care

NIE Networks strives to engage with customers professionally and courteously while being respectful of their individual needs.

The focus on reducing the number of complaints from customers continued in 2019 with the number of complaints received being 7% lower than in the previous year. Individual complaints received are analysed and assessed, based on the specific circumstances, to determine whether or not the complaint was avoidable.

The continued strong focus on customer service limits the number of instances when customers are dissatisfied to the extent that they refer a complaint to the Consumer Council for Northern Ireland (CCNI) for review (Stage 2 Complaints). During the year, two Stage 2 Complaints were taken up by the CCNI on behalf of customers (2018 – one).

NIE Networks has committed to delivering customer service improvements during RP6 as it seeks to meet and exceed ever increasing customer expectations, especially in relation to increased means of engagement with the Company. These improvements are incorporated into the annual Customer Service Action Plan, endorsed by the Board.

The Consumer Engagement Advisory Panel (CEAP), established during the development phase of the RP6 business plan and comprising NIE Networks with the UR, Department for the Economy (DfE) and CCNI, will continue to oversee ongoing consultation with customer groups during the RP6 period on the delivery of the RP6 programme and priorities leading into the next price control period.

During 2019 the first stakeholder workshops were hosted by the Managing Director. Feedback was gained in areas of customer service approach; enabling developments/connections; and a low carbon future and also explored the best approach to ongoing stakeholder engagement with relevant groups. The next phase, to survey a large number of domestic and business customers took place in early 2020.

Arrangements are in place with ESB Networks, Northern Ireland Water, Openreach Northern Ireland and Phoenix Natural Gas to provide mutual support, such as sharing resources and equipment, so that customers' utility supplies can be restored more quickly during periods of severe weather or other emergency situations. In addition, together with district councils, emergency planners, health trusts and other organisations, NIE Networks has arrangements in place to respond to wider community needs in the event of customers being without electricity for an extended period of time due to severe weather or an emergency situation. A Winter readiness communications campaign is in place to ensure homeowners have the utility companies' contact details should they need them.

NIE Networks' medical customer care information service is a priority service for customers who rely on electricity for their healthcare needs with customers or their carers receiving prioritised information on faults or planned work on the network. During the year, the number of customers registered for the service increased to approximately 10,000 (2018: approximately 9,000).

NIE Networks works with electricity suppliers to offer a Password scheme to reassure customers that the employee visiting their home or premises is a genuine caller, whereby a pre-agreed password is delivered to the customer before the employee is allowed to enter a property. In addition, NIE Networks is a member of the PSNI Quick Check 101 scheme.

NIE Networks is in the second year of its three year partnership with the NOW Group, the social enterprise that supports people with learning difficulties and autism into employment, on its JAM Card initiative. JAM stands for Just A Minute and is a card originally designed as a way for people with communications difficulties to ask for some more time to complete their activities. Over 90% of NIE Networks' employees are 'JAM friendly' having undertaken NOW Group's training package.

During the year, NIE Networks introduced 'Browse Aloud' technology on its website to support customers with visual impairments, low literacy, dyslexia or neuro-diverse needs interact with the online content. This technology also automatically translates the content on the website into over 80 languages to support those customers for whom English is not their first language.

Connections

NIE Networks' Connections business provides safe, secure, reliable and timely electricity connections to the distribution system within Northern Ireland. Typically, connections work involves: connecting new or additional load, for housing, farms and businesses; altering the network; or connecting generators to the distribution network. More recently, customers have expressed interest in connecting energy storage devices to the network.

The number of customer demand connections completed during the year reduced from 5,095 in 2018 to 4,100 in 2019; mainly reflecting the impact of customer timeframes.

The market for new connections has been fully open to competition since March 2018. For 'contestable' elements of connections, customers can now choose whether to accept a quotation from NIE Networks or to engage an accredited ICP to design and construct the connection.

There are a number of accredited ICPs registered to complete the 'contestable' elements of connections in Northern Ireland. ICPs must adhere to NIE Networks' policies and technical specifications when completing the contestable works. Further information in relation to Competition in Connections for customers and ICPs is available on NIE Networks' website at https://www.nienetworks.co.uk/connections/competition-in-connections.

A significant milestone in Northern Ireland's energy history was reached during 2019 when the long term target of 40% of electricity consumption being produced from renewable sources by 2020 was achieved, and in fact exceeded, with 45% of consumption for the 12 month period ended 30 September 2019 being produced from renewable sources. This has been supported through the connection of approximately 1.7GW of renewable capacity to the network by NIE Networks. With a further 0.2GW capacity committed to be connected, the total connected renewable capacity is expected to reach over 1.9GW by 2022.

To date, NIE Networks has successfully connected over 23,000 generators providing renewable generation capacity to the network, significantly adding to the available market capacity.

The renewable future of Northern Ireland is dependent on good partnership and collaboration with industry participants, customers and other stakeholders. NIE Networks continues to work closely with all these stakeholders.

NIE Networks continued to actively participate in the Connections Innovation Working Group to consider and progress appropriate solutions which facilitate the connection of further Distributed Energy Resources (DER) in Northern Ireland. In December 2019, NIE Networks and SONI issued a joint consultation on NIE Networks Providing Distribution Generation Offers with Non-Firm Market Access, which closed in early 2020.

During the year, the Connections business has also continued to deliver the outputs specified in NIE Networks' business plan, including strengthening customer service and account management for project developers seeking connections to the electricity network and ensuring information provided in documentation and online meets the needs of customers.

The Connections business will continue to provide an excellent service to customers connecting to the network whilst facilitating competition in the connections market.

Sustainability

NIE Networks' Environmental Policy commits to protecting the environment and mitigating the impact of its activities upon the environment. The environmental management system is certified to ISO 14001. It is designed to ensure compliance with all relevant legislative and regulatory requirements and, where practical and economically viable, NIE Networks seeks to develop standards in excess of such requirements, introducing best practice solutions where possible.

The annual environmental business plan sets out detailed steps to ensure the achievement of the key objectives of: minimising the risks of air and water pollution and land contamination; minimising the impact on local communities; enhancing energy and resource consumption efficiency and waste management practices whilst ensuring appropriate overall environmental management.

During 2019 the Company continued to focus on each of the following areas:

- waste management targets with the recycling rate for all hazardous and non-hazardous waste (excluding excavation from roads and footpaths, civil projects excavation and asbestos removal) remaining high at 98% (2018 – 97%);
- managing environmental incidents and ensuring clean up procedures are followed where environmental incidents occur; and
- a continued reduction in energy usage across operational sites.

Two external audits of ISO 14001 were completed with zero non-conformances identified.

NIE Networks received the Ulster Wildlife's 'Wildlife Aware' accreditation for its work to develop positive relationships between employees and nature. Working with Ulster Wildlife, NIE Networks produced a Wildlife Aware guide and training programme for all employees.

To support its environmental programme and ISO 14001 targets, NIE Networks has developed a number of successful partnerships. As an addition to its tree planting programme, it undertook a tree seed collection pilot whereby a number of employees gathered seeds of native trees which were then returned to The Conservation Volunteers to plant, nurture and ultimately boost the number of native trees in Northern Ireland.

NIE Networks is one of only 23 companies in Northern Ireland to achieve the top level platinum award in Northern Ireland's Environmental Benchmarking Survey. This survey recognises those organisations that go above and beyond their legal requirements to improve their environmental impacts and better manage their resources.

Network Investment

In 2019 NIE Networks invested a total of £93.9m (2018 - £89.0m) (net of customer contributions) in the transmission and distribution networks. This investment was primarily related to the refurbishment and replacement of aged transmission and distribution assets to maintain reliability of supply and ensure the safety of the network. The marginal increase in investment from the prior year reflects the Company's strategic objective of delivering its RP6 work programme on a flat phased basis during the Price Control period.

During the year over 1,800km of transmission and distribution overhead lines were addressed as part of an ongoing refurbishment programme. In addition, tree cutting, which is an essential programme of work to maintain the networks' resilience to storm conditions and reduce network fault rates, was performed across 9,600km of overhead lines.

Significant volumes of asset replacements were also delivered on underground and substation assets totalling 5,000 units during the year.

Substantial progress was made in delivering the programme of work to inspect and improve the safety of equipment on the network. Following a risk assessment, permanent solutions were put in place at 130 locations with significant volumes of signs, stays and clearances delivered against planned programmes.

Other key investments included the progression of pre-construction works on the Coolkeeragh – Magherafelt 275kV double circuit tower line which is a key strategic supply to the North West of Northern Ireland.

During 2019, NIE Networks commenced six innovation projects with the objective of developing cost effective alternatives to conventional network investment while maintaining system capacity and capability. In parallel, and following engagement with the Energy Networks Association on its Open Networks project, NIE Networks conducted a stakeholder exercise which sought to understand, from a Northern Ireland perspective, what changes and associated investments are required to be made to its current functions as a Distribution Network Operator (DNO) to transition to a Distribution System Operator (DSO). This transition is a key focus for plans to decarbonise the energy system.

Market Operations

NIE Networks continued to achieve full compliance with its regulatory obligations in respect of customer appointments for metering work. Each year approximately three million visits to customer properties are made to take meter readings and, during 2019, NIE Networks continued to meet its regulatory standard to obtain actual meter readings from 99.5% of all customers at least once per year, therefore ensuring that electricity consumption is calculated accurately and minimising the number of estimated bills issued by electricity suppliers.

NIE Networks has certain obligations under the Trading and Settlement Code to provide aggregated meter data for the purposes of settlement of the wholesale Integrated Single Electricity Market and continued to be fully compliant with these obligations throughout 2019.

A major programme to replace meters that have reached the end of their life cycle continued during 2019 with NIE Networks replacing 38,000 meters during the year. This programme has involved the replacement of circa 35% of customers' meters since it commenced in 2015.

People

NIE Networks' resourcing strategy is to use highly skilled employees for core strategic activities working in partnership with bought-in-services as appropriate. This ensures that knowledge and skills are retained, allows greater agility and flexibility to redeploy employees where needed and builds a strong culture of engaged employees motivated to deliver business objectives. An organisational realignment implemented in May 2019 created development opportunities for employees at all levels. The number of employees at the end of 2019 was 1,216 (2018 – 1,180).

Against the challenges of delivering the outputs required in the RP6 price control within the allowances set, management have continued to focus on cost reduction by challenging resourcing across the business while at the same time recognising the significant challenges faced and the need to ensure the Group has the appropriate skills for the future. This has created upskilling and development opportunities for employees by increasing their responsibilities and also offering opportunities for retraining.

Training and Development

NIE Networks seeks to attract, develop and retain highly skilled people through its award winning apprenticeship programme, as well as graduate, apprentice-to-graduate and scholarship programmes. The Group's Technical Training Centre, which includes Apprentice Training, continued to maintain its extremely high standards and again achieved an "Outstanding" classification in its annual inspection by the Education and Training Inspectorate. It is accredited by the Institution of Engineering and Technology (IET) for its apprenticeship programme and was awarded Best Apprenticeship Scheme at the UK CIPD People Management Awards in 2019.

NIE Networks is committed to a working environment which enables employees to realise their maximum potential and to be appropriately challenged and fully engaged in the business, with opportunities for skills enhancement and personal development. Human Resources policies are aligned with key business drivers including: performance and productivity improvement; clearly defined values and behaviours; a robust performance management process; and a strong commitment to employee development.

A strong focus on development continued during the year with a high percentage of employees involved in a variety of training and development initiatives which included leadership skills programmes, support programmes for formal qualifications, role enhancement, role changes, team development initiatives, coaching and mentoring. To continue to support the management team, a 360 degree feedback process commenced in 2019. This engagement will allow targeted leadership development.

NIE Networks continues to promote the professional development of engineers through the IET Professional Registration Scheme and encourages and supports more employees to become IET members and Chartered Engineers. During 2019 seven engineers achieved IET professional membership at varying levels.

Equality and Diversity
NIE Networks is proactive in implementing and reviewing human resource policies and procedures to ensure compliance with all relevant legislation. NIE Networks is committed to providing equality of opportunity for all employees and job applicants with ongoing monitoring to ensure that equality of opportunity is provided in all employment practices. The Group uses outreach initiatives to actively seek female applications in male dominated job roles. NIE Networks has been successful in its application for the Bronze Diversity Charter Mark in recognition of the many initiatives in place in the business to support gender diversity.

Group policy is to provide people with disabilities equal opportunities for employment, training and career development, having regard to aptitude and ability. Any member of staff who becomes disabled during employment is given assistance and re-training where possible.

Sickness Absence
The proactive management of absenteeism is to the mutual benefit of the organisation and its employees. A health and wellbeing policy covering stress management is in place, with specific policies on mental health, alcohol and drug-related problems and support to stop smoking. External occupational health and counselling services are available for all employees.

The Health and Wellbeing Forum and champions across the business rolled out various initiatives during the year to provide additional guidance and support to enable employees to proactively manage their own health and wellbeing. Sickness absence during the year was 3.27% of employee time, an increase of 0.02% from the previous year owing to long-term sickness absences.

Employee Engagement
NIE Networks places considerable emphasis on its employee participation and engagement processes which are well embedded in the Company's culture. The Employee Engagement Board, comprising members representing each employee location and chaired by the Human Resources (HR) Director, meets bi-monthly and is held in a different location each time to maximise the opportunity for wider engagement. Meetings include updates on key areas of the business, participative group work, idea sharing and two way feedback. Separate engagement groups operate at each main staff location ensuring local discussion and information sharing. Through this process matters are identified for improvement and followed through by management or with employees via a wide variety of participative working groups.

Separate company-wide working groups and forums focus on specific issues/problems or ideas generation, including Health & Wellbeing, Digital Strategy, Innovation and Pensions to drive improvements for both the business and employees. As a large proportion of the workforce are field based working on the network across NI, meetings take place regularly at depots to ensure that all of these employees have an opportunity to raise issues directly with management.

Three separate Employee Relations Forums, comprising management and the relevant trade union representatives, meet monthly to progress a wide range of employee relations issues. More formal negotiating committees, chaired by the HR Director are held regularly and are attended by management, the respective fulltime union official and trade union representatives to discuss more complex issues including terms and conditions and pay. The Executive Committee holds workshops with the senior management group of around 45 managers at least biannually to consider performance and new developments and plans.

The formal monthly employee briefing process is the key process to ensure that all employees are kept up to date on matters of concern to them as employees and on Company developments generally. All employees can attend a session with line management at their local workplace and can also access the material via the Company's intranet. All employees have the opportunity to attend presentations by the Managing Director, with other members of the Executive Committee, at least annually discussing business performance, planned developments and longer term strategy. New employees participate in a formal induction programme including meeting with senior management.

The annual business plan setting out corporate objectives is briefed to employees early in the year. This includes a number of performance targets for the Company, the outcome of which determines an element of annual pay award for employees across the business and an element of annual performance bonus for those participating in the annual bonus scheme. Monthly updates on the Company's performance against these targets are provided to all employees.

Work Experience and Educational Outreach
NIE Networks is conscious of the ongoing need to encourage and develop tomorrow's workforce. By its nature, power engineering is highly skilled and specialist and requires many years of training. With fewer students choosing science and technology subjects, the electricity industry continues to face significant skills shortages. NIE Networks therefore continued to engage proactively with students to consider engineering as a career, through a wide range of educational outreach initiatives including:

- main sponsor of "Skills NI", a two day careers event in Northern Ireland for 14-19 year olds connecting around 8,000 young people with job, career and skills opportunities across Northern Ireland;
- links with over 80 schools, most of the further educational colleges and the two universities in NI to promote opportunities to study Science, Technology, Engineering and Maths (STEM) subjects;
- offering four further Electrical & Electronic Engineering scholarships at Queen's University Belfast taking the total number of NIE Networks' scholarship students to 23. In addition, NIE Networks has two employees participating in our Apprentice to Graduate scheme; and
- work experience for 49 GCSE and A-Level students studying STEM subjects as well as sponsoring, mentoring and facilitating Nuffield Placement Projects and Arkwright Scholarship Students.

Community Initiatives
NIE Networks continues to be a member of Business in the Community (BiTC). Throughout 2019 employees served on the boards of 13 local voluntary, community and social enterprise organisations.

During 2019, employees nominated Air Ambulance NI as NIE Networks' charity of the year and participated in a variety of fundraising initiatives; raising £22,000.

Charitable giving by employees is promoted through the NIE Networks' Staff and Pensioners' Charity Fund, to which the Group contributed £10,000 during the year. In 2019 the Charity Fund donated £30,000 to local charities.

Looking Forward

Key priorities for 2020:

- ensuring the health and safety of employees, contractors and the general public will continue to be the top priority: achieving a zero-harm work environment through implementation of injury and accident-free initiatives;
- delivering a Customer Service Action Plan that will drive further improvement in customer service and development of a customer centric culture;
- ongoing focus on delivery against RP6 price control allowances and outputs while maintaining a safe and secure network;
- competing successfully in the open connections market;
- providing effective employee engagement across the business;
- continued investment in employees to enhance NIE Networks' capability;
- maintaining a strong investment grade credit rating;
- engaging effectively with key stakeholders;

- contributing to the development of a new energy strategy for NI; and
- preparing the network for a low carbon future.

Stakeholder Engagement and Section 172(1) statement

This section describes how the directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the directors' statement required under the Companies (Miscellaneous Reporting) Regulations 2018.

The Board has approved a Code of Ethics which sets out NIE Networks' approach to responsible and ethical business behaviour with the underlying principle that everyone working for NIE Networks, including the directors, must adhere to the highest standards of integrity, loyalty, fairness and confidentiality, including meeting all legal and regulatory requirements. Specific policies and procedures on the prevention, detection and investigation of fraud, bribery and corruption and modern slavery have been approved by the Board. These arrangements, and NIE Networks' wider risk management, governance and internal control framework align with the standards required by its shareholder, ESB.

As part of the Board's role it seeks to ensure that it is cognisant of the long-term impact of any decisions. To that end, the Board periodically reviews the Company's strategy and regularly seeks updates on strategic issues which may impact the business. Additionally, the Board requires management to prepare annually a Business Plan for the following year, including five year projections and funding requirements, as well as completing a review of business risks, both principal and emerging. In that context, any matters presented to the Board for approval need to align with the Company's strategy and Business Plan.

NIE Networks creates value for the shareholder by delivering strong and sustainable results. NIE Networks' Managing Director and Finance & Regulation Director engage with senior executives at ESB each quarter to provide updates on NIE Networks' performance against the annual business plan, governance matters and on other key developments. Engagement with ESB is consistent and compliant with NIE Networks regulatory conditions and the Compliance Plan with respect to NIE Networks' independence within the ESB Group.

Employees

Ensuring the health, safety and wellbeing of employees is the number one value at the core of NIE Networks' business operations, with the aim to provide a zero-harm working environment where risks to health and safety are assessed and controlled. The Health & Safety section of the Operational Review provides detail on how the Company sought to achieve this during 2019. The Board approves the annual Health, Safety and Wellbeing Plan and considers updates on progress against the plan at each meeting. The Board considers and approves annually the Health and Safety Policy and Health and Safety Management System.

NIE Networks depends on highly trained, skilled and engaged employees to achieve its objectives. The HR Director, who joined the Board as an executive director from 1 May 2019, oversees the development and implementation of NIE Networks' HR strategies which are considered regularly by the Board. The progressive HR strategies in place for resourcing, training and development, equality and diversity, managing sickness absence, employee engagement including engagement with trade unions and employees' participation in the affairs of NIE Networks are detailed in the People section of the Operational Review.

During the year the Board received regular updates from the HR Director on employee engagement processes and issues being addressed. Non-executive directors met with employees informally at two separate workplaces, and a number of non-executive directors attended a meeting of the Employee Engagement Board and other employee events in order to engage directly with employees from across the business.

As most employees are members of the Northern Ireland Electricity Pension Scheme's defined contribution scheme, and with over 4,000 pensioners in the scheme's defined benefit section, the Board of trustees of the scheme is a key stakeholder. The Board receives regular updates on the scheme and senior management provide the trustees with regular updates on the Company's performance and other relevant matters. During 2019, the Board approved a number of revisions to the scheme, primarily to enhance pension arrangements for defined contribution members, and provide additional flexibility and choice, for members and pensioners.

Customers

NIE Networks' customers include large electricity users, customers seeking demand or generation connections, business and domestic customers, including those with specific needs, and landowners. These customer groups and their various representative bodies, including the CCNI, are key stakeholders with well established engagement channels in place.

The Board endorsed the 2019 Customer Service Action Plan to address increased expectations of customers, including responses from customer call backs and surveys. During the year the Board monitored customer service performance, receiving regular information on the average number of minutes customers had no electricity supply, the level of complaints and the number of these taken up by the CCNI on behalf of customers.

Further information on customer service and engagement with customers can be found in the Customer Service and Care and Connections sections of the Operational Review, including details on the Consumer Engagement Advisory Panel (CEAP) and stakeholder workshops held during the year. The Board monitors the work of CEAP, with a number of non-executive directors attending one of the stakeholder workshops held during the year and the Board receiving an independent report from the workshops.

Suppliers

The Board recognises the key role suppliers play in ensuring NIE Networks delivers a reliable service to customers: in supplying materials for the network, working on the network as contractors as well as the provision of essential managed services to the business. NIE Networks' procurement practices are governed by the EU's Utilities Contracts Regulations 2016. During the year the Board had a presentation which included an overview of NIE Networks' key suppliers, provided insights on the approach to managing supplier relationships and considered future challenges and developments. The Board ensures that formal contract management arrangements are in place throughout the duration of supplier contracts, including in relation to the management of safety performance for the contractors working on the network. The Board received updates during the year on NIE Networks' supplier payment practices.

Along with other members of the Executive Committee, the executive directors oversee the relationships with key suppliers, with other Board members having opportunities to meet informally with key suppliers on occasions.

Regulators

Other than suppliers and customers, the Board has identified a number of other key stakeholders. The UR has regulatory oversight over NIE Networks and there are well established formal channels of engagement with the UR at various levels within NIE Networks, overseen by the Managing Director and Finance & Regulation Director, who report on key regulatory issues to each Board meeting, with the Compliance Manager also reporting directly to the Board. There is Board level engagement with the UR on specific significant matters.

The Department for the Economy (DfE) has regulatory powers and sets energy policy. Together with senior executives from the UR and SONI, the Managing Director participated in the DfE's Electricity Stakeholders Group during 2019, providing input and support to the electricity aspects of the DfE's development of a new energy strategy for Northern Ireland with the Call for Evidence issued in December 2019. The Board has been kept updated on progress and has had direct engagement with the DfE.

Other government agencies, including the Health and Safety Executive Northern Ireland (HSENI) and the Northern Ireland Environment Agency (NIEA), are key stakeholders in relation to health and safety and the environment with the Board receiving a report to each meeting on any health and safety and environmental incidents including any matters reported to these agencies.

Other key stakeholders

In addition to customers and their representative bodies, suppliers and regulators, other key stakeholders to which NIE Networks directors have regard include other electricity market participants, including SONI, other utility companies, industry and business representative bodies and bond investors.

Together with other members of the Executive Committee, the Managing Director is involved in engagement with senior executives of SONI on both operational matters and also on the development of potential roadmaps for a decarbonised electricity system enabling a low carbon future for Northern Ireland. The Managing Director is a member of the joint utilities group in Northern Ireland providing mutual aid in severe weather incidents impacting on service provision to customers and communities. The Managing Director and other senior executives engage with local councils and with groups representing industry and business, including representation on relevant committees to ensure the interests of the wider industry and business community are considered in NIE Networks' operations and plans. Non-executive directors also engage with these key stakeholders as appropriate.

The Board is kept updated on engagement with NIE Networks' bond investors and Standard & Poor's credit rating agency which is led by the Finance & Regulation Director.

The Board has endorsed an external stakeholder engagement strategy. The Managing Director oversees the implementation of the strategy and the Board considers regular updates on progress. During 2019, the Board also considered the results of an externally conducted survey of key stakeholder groups' perceptions of NIE Networks which established a benchmark to drive future stakeholder engagement strategy.

Members of the Board and senior management are active participants in the CBI, NI Chamber of Commerce and Industry, Women in Business, the Institute of Directors and the Centre for Competitiveness in Northern Ireland.

Community and environment

NIE Networks provides a vital service to every home, farm and business in Northern Ireland as part of its day-to-day work in delivering electricity supplies. Through its mainstream business activities and various specific initiatives, NIE Networks seeks to make a positive impact on the communities in which it operates.

The Health and Safety section of the Operational Review provides detail on how NIE Networks sought to ensure the safety of the general public in its operations and initiatives taken in raising the public's awareness of the dangers of the electricity network during the year. The Network Performance and Customer Service and Care sections of the Operational Review set out the good performance during 2019 in providing a reliable and responsive electricity service, including emergency response during severe weather events and provides information on services to customers who rely on electricity for healthcare needs, do not have English as their first language or are visually impaired.

The Board considered and approved the plans for 2019 to ensure the safety of the public with updates on performance against the plans considered at each meeting. In the autumn the Board reviewed NIE Networks' preparedness for response to severe weather events and reviewed performance after each significant event. During the year the Board was kept updated on engagement with local communities, including ahead of planned maintenance or refurbishment of the network and large connections work.

The Sustainability section of the Operational Review sets out how NIE Networks sought to protect the environment and mitigate the impact of its activities upon the environment during the year. The Board reviewed and approved the Environmental Policy and the 2019 environmental business plan.

NIE Networks is a member of European Distribution System Operators (E.DSO), an association which represents electricity distribution system operators (DSOs) across 25 European countries and promotes the development of smart grid technologies, new market designs and regulation. During 2019 the Board approved the adoption of the E.DSO Sustainable Grid Charter as a statement of intention in relation to NIE Networks' commitment to sustainability in respect of climate change and wider environmental and societal impacts.

As stated previously, a key priority for the directors during the year was the development of potential roadmaps for a decarbonised electricity system enabling a low carbon future for Northern Ireland.

How stakeholders' interests have influenced decision making

NIE Networks recognises the importance of engaging with stakeholders to help inform strategy and Board decision-making. Relevant stakeholder interests, including those of employees, customers, suppliers, regulators and others are taken into account by the Board when it takes decisions. Principal decisions are those which are material, or of strategic importance, to NIE Networks and also those which are significant to any of NIE Networks' key stakeholder groups.

During the year the Board had regard to:

- the views of a range of key stakeholders, including industry participants, customer representative bodies and landowner representative bodies, in response to NIE Networks' consultation on its future transition to a distribution system operator (DSO) which were received via direct engagement in workshops and through formal written responses. This engagement provided a good insight into stakeholder views across a broad range of related matters and helped influence the DSO vision and in developing recommendations for the significant transition required which was endorsed by the Board for submission to the UR at the end of the year;

- the interests of both current and future customers, and of employees, in endorsing a realignment of the organisational management structure to provide a single customer delivery model organised on a geographic basis, alignment of key customer facing activities and the enhanced strategic focus on network assets; and

- the interests of employees, including the consideration of views provided in the employee engagement processes, in agreeing enhancements to the defined contribution section of the NIE Pension Scheme following a review by an employee led Pensions Review Group and endorsing enhancements to the maternity policy.

Risk Management

Principal Risks and Uncertainties

NIE Networks' principal risks remained consistent between 2018 and 2019, although with some movement on the relative ranking of risks and some changes to the key risk drivers. The Board agreed the principal risks and the detailed risk plan following consideration and recommendation by the Audit & Risk Committee. The principal risks and uncertainties that affect the Group along with the main mitigating strategies deployed are outlined on the following pages.

Risk & Risk Description	Mitigating Strategies
HEALTH & SAFETY RISKS	
Health & safety: Exposure of employees, contractors and the general public to risk of injury and the associated potential liability and / or loss of reputation for NIE Networks.	A comprehensive annual Health, Safety and Wellbeing Business Plan approved annually by the NIE Networks Board which sets out detailed targets for the management of health and safety. These targets are continually monitored as part of the Group's ISO 45001 standard safety management framework. Comprehensive safety rules, policies, procedures and guidance reviewed and communicated regularly and compliance monitored on an ongoing basis. A strong focus on the inspection of work sites and the reporting, reviewing and communication of near miss incidents. Ongoing programmes to increase public awareness of the risks and dangers associated with electricity equipment. Ongoing engagement with GB Distribution Network Operators through the ENA in order to share best practice and learning.
REGULATORY RISKS	
Licence compliance: Failure to comply with regulatory licence obligations.	NIE Networks has a dedicated Compliance Manager to monitor compliance with all regulatory licence obligations and to report to the Utility Regulator on regulatory matters.

Risk & Risk Description	Mitigating Strategies
FINANCIAL RISKS	
Funding & liquidity: Inability to secure adequate funding at appropriate cost for planned investments in the event that NIE Networks' credit metrics were not maintained within Credit Rating Agency investment grade targets.	NIE Networks employs a continuous forecasting and monitoring process to ensure adequate funding is secured on a timely basis. The Group sets its financial plans cognisant of the requirement to ensure adequate funding for its activities and to maintain an investment grade credit rating with rating agencies.
Exposure to financial counterparty risk.	Credit risk in respect of receivables from licensed electricity suppliers is mitigated by appropriate policies with security received in the form of cash deposits, letters of credit or parent company guarantees. NIE Networks conducts business only with Board approved counterparties which meet the criteria outlined in the Group's treasury policy. The Group's treasury policy and procedures are reviewed, revised and approved by the Board as appropriate.
Pensions: Increase in the deficit costs or ongoing accrual costs in the defined benefit section of the Northern Ireland Electricity Pension Scheme (NIEPS) ("Focus") not covered by regulatory allowances.	"Focus" has been closed to new entrants since 1998. Since 1998 new members have joined the money purchase section of the NIEPS ("Options"). The NIEPS Trustees seek the advice of professional investment managers regarding the scheme's investments. The deficit repair plan was updated in 2018 following the conclusion of the latest triennial review of the deficit as at 31 March 2017. The deficit repair plan will be reviewed in line with the next triennial review of the deficit as at 31 March 2020.
MARKET RISKS	
Customer service: Failure to meet standards for customer service resulting in damage to reputation.	Stretching customer service standards are approved by the NIE Networks Board. Performance against these standards is monitored and reported on a monthly basis.
Connections market share: Risk of reduced income arising from either a reduced market and/or market share arising from contestability in connections.	NIE Networks continuously reviews and analyses connection charges to ensure delivery of value for customers. The Group also actively forecasts market movements to establish the likely impact on the connections business.

Risk & Risk Description	Mitigating Strategies
OPERATIONAL RISKS	
Networks infrastructure failure: Widespread and prolonged failure of the transmission or distribution network.	The risk is minimised through ongoing assessment of the network condition and development of asset management techniques to inform maintenance and replacement strategies and priorities. NIE Networks' asset management practices are certified to ISO 55001, the internationally recognised standard for asset management. The network is strengthened through appropriate investment, a reliability-centred approach to maintenance and a systematic overhead line refurbishment and tree cutting programme. NIE Networks' strategy is to continue to maintain and develop a safe and secure network to meet market demands.
Emergency response: Failing to respond adequately following damage to the electricity network from adverse weather conditions.	System risk assessments are completed regularly and weather forecasts actively monitored daily. There is a comprehensive Emergency Plan and Storm Action Plan in place, each reviewed and tested regularly with emergency simulations carried out at least annually. Duty incident teams provide cover 365 days per year with arrangements in place for access to external utility resources if required.
IT failure: Major failure of IT infrastructure or IT systems arising from a successful cyber attack or non-malicious failure.	Regular review of IT systems and their resilience. Ongoing programme of review and upgrade of IT software and hardware with IT partners. Ongoing monitoring of technical performance and reliability. Disaster Recovery and failover arrangements documented and tested regularly. IT Security Forum responsible for policies and procedures and staff awareness training and communication. Governance structures are in place to ensure ongoing compliance with the Network and Information Systems Directive, including ongoing reporting to the Northern Ireland Competent Authority (NIS Regulator for Northern Ireland).
Data loss: Loss of data integrity or breach of Data Protection Act.	The Group's Data Protection Officer, supported by a Data Protection Forum, implements and monitors compliance with data protection policy and procedures. Governance structures are in place to ensure compliance with the Data Protection Act 2018. Ongoing data protection training for all staff.

Risk & Risk Description	Mitigating Strategies
PEOPLE RISKS	
Knowledge, skills and succession management: Inadequate resources with the necessary knowledge and skills.	NIE Networks' strategy is to attract, develop and retain highly skilled people through graduate, apprenticeship, trainee and sponsorship programmes to ensure that appropriate resources are in place to meet the Group's regulatory obligations.
Failure to develop and retain staff.	Employee development is a key priority for the Group with continued investment in staff training, skills development and on-going performance improvement. Focused employee development programmes are in place to maximise the potential of staff and ensure adequate succession planning.

Brexit

The Brexit bill implementing the UK's exit deal with the European Union became official UK law as EU (Withdrawal Agreement) Act on 23 January 2020. The deal was subsequently ratified by the European Parliament on 29 January. The agreement allows for an 11 month transition period to 31 December 2020 during which the two sides will attempt to negotiate their future economic relationship. NIE Networks will continue to monitor developments and assess the key risk areas throughout the transition period.

Emerging risks

The risk management framework enables the Group to identify, analyse and manage emerging risks to help identify exposures as early as possible. This is managed as part of the same process to identify principal risks and is reviewed and monitored in conjunction with principal risks.

High Impact Low Probability (HILP) risks

As a provider of critical national infrastructure, NIE Networks is acutely aware of the potential impact of this category of risk for the Group. A full review of HILP risks was undertaken in 2019 and agreed by the Board. The review also considered the impact upon principal risks and mitigating strategies.

Business Continuity

NIE Networks is responsible for the provision of critical infrastructure and disruptions to certain services and operations are potentially damaging to the economy, to society and to NIE Networks' business. The Group has in place a robust set of business continuity plans and processes, including crisis management pandemic plans, to ensure that responses are well managed and executed. The exercising and testing of these plans is key to ensuring NIE Networks' preparedness for a business continuity event.

On behalf of the Board

Paul Stapleton
Managing Director

Northern Ireland Electricity Networks Limited
Registered Office:
120 Malone Road
Belfast BT9 5HT

Registered Number: NI026041
Date: 20 March 2020

BOARD OF DIRECTORS

DAME ROTHA JOHNSTON DBE was independent non-executive director, and Chair of the Audit & Risk Committee, from March 2011 to early March 2020 when she was appointed as Chair of the Board. She is Chairperson of Northern Ireland Screen, a member of KPMG's Northern Ireland Advisory Board, a member of Belfast Harbour Commissioners and a director of QUBIS Ltd and Ulster Garden Villages Ltd. She is a member of the Industrial Strategy Council, an independent body assessing the progress of the UK Government's Industrial Strategy. In the past she has been a BBC Trustee for Northern Ireland and Pro-Chancellor at Queen's University Belfast. In 2016 she was awarded Dame Commander of the Order of the British Empire for services to the Northern Ireland economy and public service.

STEPHEN KINGON CBE was independent non-executive Chairman of the Board from March 2011 to 3 March 2020. He is Chairman of the Northern Ireland Centre for Competitiveness and Lagan Homes Group Ltd. He is Pro-Chancellor at Queen's University Belfast and a non-executive director of Anderson Spratt Group, Balcas Ltd, Dale Farm Group Ltd and NI Opera. He was formerly Chairman of Invest Northern Ireland and Managing Partner of PricewaterhouseCoopers in NI.

ALAN BRYCE was appointed as an independent non-executive director in January 2018. He is a non-executive director of Jersey Electricity plc. and a member of Ofgem's Customer Challenge Group for the RIIO-2 networks price review. He has extensive relevant experience and knowledge of the energy sector as he formerly held senior executive positions at Scottish Power including as UK Planning and Strategy Director, Managing Director of Generation and Managing Director of Energy Networks. He was previously a non-executive director of Scottish Water, Infinis Energy plc and at Iberdrola USA. He is a Fellow of the Institution of Engineering and Technology**.**

KEITH JESS, was appointed as an independent non-executive director in September 2019 and as Chair of the Audit & Risk Committee in March 2020. He is a member of the Senate of Queen's University Belfast and a non-executive director on the Board of The Progressive Building Society, in each case chairing the Audit Committees.

His executive career was primarily at Ernst & Young (EY) (and its predecessor entities) based in its Belfast office, where he was Audit Partner from 1990 to 2017. He was Engagement Partner for EY on the audit of a number of companies within the energy sector in Northern Ireland and a range of other large industrial and commercial clients. He is a Fellow of the Institute of Chartered Accountants in Ireland.

PAUL STAPLETON, Managing Director, was appointed to the Board in May 2018. He is a director of Energy Networks Association Ltd, European Distribution System Operators for Smart Grids (E.DSO), the Northern Ireland Centre for Competitiveness and a committee member of the Institute of Directors in Northern Ireland. He joined ESB in 1991 where he held a number of senior management positions including General Manager of Electric Ireland, ESB Group Treasurer and Financial Controller of ESB Networks Limited. He is a member of the Chartered Institute of Management Accountants.

GORDON PARKES, Human Resources Director, was appointed to the Board in May 2019. He has been HR Director since 2000. He is a Board Member of the Board of Trustees of the Grand Opera House Trust and of the Royal Belfast Academical Institution. He formerly held HR Director positions at Norbrook Laboratories Ltd, Tyrone Crystal Ltd and Adria Ltd. He has been a Board member at the Labour Relations Agency and a member of the CBI Employment and Skills Committee. In 2019 he was awarded Chartered Companion status by the Chartered Institute of Personnel and Development. He holds a Masters in Business Administration.

GROUP DIRECTORS' REPORT

The directors present their report and audited financial statements for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (the Group) for the year ended 31 December 2019.

Results and Dividends

The results for the year ended 31 December 2019 show a profit after tax of £59.1m (2018 - £55.0m). During the year the Company paid a dividend of £23.7m (2018 - £22.0m). The business and financial review, together with future business developments, are provided in the Group Strategic Report.

Corporate Governance

The Board's Governance Report

NIE Networks' regulatory licences require it to establish, and at all times maintain, full managerial and operational independence within the ESB Group. The NIE Networks Compliance Plan, approved by the Utility Regulator, sets out how this independence is achieved. NIE Networks is an independent company within the ESB Group of companies with its own Board of directors, management and employees.

Under the Companies (Miscellaneous Reporting) Regulations 2018, from the year ended 31 December 2019 NIE Networks is required to state which corporate governance code, if any, it has applied and how. In January 2019, NIE Networks adopted the Corporate Governance Principles for Large Private Companies issued by the Financial Reporting Council (FRC) in December 2018 (or 'The Wates Principles').

The Wates Principles set out six key principles of governance: Purpose and Leadership; Board Composition; Director Responsibilities; Opportunity and Risk; Remuneration; and Stakeholder Relations and Engagement. The Board's Governance report, setting out how it has applied each of the Wates Principles during the year, is structured accordingly.

Purpose and Leadership

Good governance provides the foundation for long-term value creation and is a core focus for the NIE Networks Board. The Board sees its duties as including responsibility to the long term success of NIE Networks, providing leadership and direction for the business and supporting and challenging management to get the best outcomes for NIE Networks and its stakeholders.

The Board has endorsed the Company's Vision, Mission and Values set out in the Group Strategic Report.

The Board oversees the development of management's plans for investing in the network and delivering services to customers for each multi year price control period, providing scrutiny and challenge before submission to the UR and considers for approval the UR's determination. Once the multi year plan is agreed the Board considers and approves the strategy to deliver the agreed plan, including human and financial resources, procurement strategies, and approves annual business plans for delivery. The Board ensures that there is a strong management team in place to execute the strategy and drive business performance and to maintain a framework of prudent and effective controls to mitigate risk.

The Board considers long term developments for the electricity system, recognising that major change will be required to facilitate the growth of low carbon technologies connecting to the network which will impact how the network is managed and operated. The Board has been considering these long term developments for the Company, providing challenge and guidance to management.

In addition to endorsing the Company's values, the Board has approved a Code of Ethics which sets out NIE Networks' approach to responsible and ethical business behaviour. The underlying principle of the Code is that everyone working for NIE Networks must adhere to the highest standards of integrity, loyalty, fairness and confidentiality, including meeting all legal and regulatory requirements. The Board's Audit & Risk Committee is advised of any serious concerns raised by employees, and stakeholders generally, via the speaking up / whistleblowing arrangements as and when they arise and of the outcome of investigations. Contractors, external consultants and other third parties acting on behalf of NIE Networks, are also expected to conduct themselves in accordance with the purpose of the Code and the Board's Audit and Risk Committee has ensured that processes are in place for this purpose.

Culture is the combination of values, attitudes and behaviours manifested by a company in its operation and relationship with stakeholders. The Board monitors the culture within NIE Networks by receiving information on safety incidents, absenteeism, employee turnover, internal control weaknesses, employee surveys, stakeholder surveys, customer surveys, 360 degree feedback process and directly via Board members' site visits and direct engagement with employees.

The Board ensures that there are well embedded arrangements for engagement with employees on NIE Networks' purpose, strategy and developments and on the behaviours expected of all employees arising from the Company's values and culture. This includes via monthly briefings, at least annual Managing Director presentations, Employee Engagement Board and local meetings, as well as engagement with trade unions, with regular feedback on engagement activities being provided to the Board.

Board Composition

The NIE Networks Board comprises a majority of independent non-executive directors, currently comprising of three independent non-executive directors and two executive directors. From September 2019 to early March 2020 there were four non-executive directors, enabling a smooth transition of responsibilities for the non-executive directors.

Throughout 2019, Stephen Kingon CBE continued to chair the Board and Dame Rotha Johnston DBE and Alan Bryce served as the Board's other independent non-executive directors, with Keith Jess appointed as an independent non-executive director on 23 September 2019. On 3 March 2020, following nine years of service, Stephen Kingon retired as Chair of the Board and on 4 March 2020 Dame Rotha Johnston was appointed Chair. The Board expresses its gratitude to Stephen for his significant contribution to the Board and the Audit & Risk Committee over these years. Paul Stapleton, Managing Director, was an executive director throughout 2019 and to the date of this report. Peter Ewing stood down as Deputy Managing Director and Director of Regulation and Market Operations at the end of April 2019 and Gordon Parkes, Human Resources Director, was appointed to the Board as an executive director from 1 May 2019.

The non-executive directors bring diverse experience, independence and challenge to support effective decision making. The range of Board members' experience in: the electricity industry; business and finance; accounting and auditing; human resources; serving on other Boards and Audit Committees; and in NIE Networks' operations is set out in their biographies on page 23. The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of them.

The Board has agreed a statement of the division of responsibilities between the Chair and the Managing Director. The non-executive Chair leads the Board, considers and approves the Board agenda and is responsible for ensuring the Board's effectiveness and effective communication with the Company's shareholder and other key stakeholders whilst the Managing Director is responsible for the executive leadership of the day to day running of NIE Networks.

Appointments to the Board are reserved to NIE Networks' ultimate parent undertaking, ESB, for approval. This is in accordance with the NIE Networks Compliance Plan. The Chair and the Managing Director engage with ESB about the key skills and experience that are required on the Board. During 2019, a specification was prepared for the appointment of a new non-executive director and Chair of the Audit & Risk Committee and a search agency engaged to bring forward suitable candidates for consideration. Non-executive directors are appointed by NIE Networks under contracts for services setting out expected time commitment, duties and fees. An induction programme is in place to familiarise new non-executive directors with NIE Networks.

The Board conducts an annual evaluation of its own performance, and that of the Audit & Risk Committee, in order to identify ways to improve effectiveness. The evaluation, which relates to the Board and the Committee's collective performance, is led by the Chair and supported by the Company Secretary. Based on members' responses to a questionnaire, a report is made to the Board, and the Committee respectively, with proposed actions to address the issues raised, with non-executive directors meeting separately to consider the reports. The annual assessment includes consideration of specific training and development needs by each director.

Director Responsibilities

The Board has five scheduled meetings each year, with additional meetings on specific matters as required, and a separate annual meeting to consider longer term strategic issues. The Board is responsible for reviewing NIE Networks' operational and financial performance and for ensuring effective internal control and risk management. There is a formal schedule of matters reserved to the Board for decision including approval of: the annual financial plan; dividends; annual statutory, interim and regulatory financial statements; major capital expenditure; major regulatory submissions and certain annual regulatory reports; key corporate policies; the annual Health, Safety and Wellbeing Plan; and appointments to the Executive Committee on the recommendation of the Managing Director.

The Board has delegated authority to management for decisions in the normal course of business subject to specified limits. The Board has delegated authority to the Executive Committee of the Board to undertake much of the day-to-day business and management and operation of NIE Networks. The Executive Committee meets formally monthly and on other occasions as necessary and reports on its activities to each Board meeting.

The Audit & Risk Committee is a formally constituted committee of the Board, comprising solely non-executive directors, with detailed terms of reference setting out its responsibility for overseeing the Group's financial reporting process and internal control and risk management systems. More detail on the activities of the Audit & Risk Committee is provided on page 28.

Current membership of the Board, the Audit & Risk Committee and the Executive Committee is as follows:

Board of Directors
Rotha Johnston DBE (Chair)
(appointed Chair March 2020)
Alan Bryce (Independent Non-Executive Director)
Keith Jess (Independent Non-Executive Director)
Paul Stapleton (Managing Director)
Gordon Parkes (Human Resources Director)

Audit & Risk Committee
Keith Jess (Chair)
(appointed member September 2019 and Chair March 2020)
Rotha Johnston DBE
Alan Bryce

Executive Committee
Paul Stapleton, Managing Director
Gordon Parkes, Human Resources Director
Con Feeney, Customer Delivery Director
Roger Henderson, Network Assets Director
Gavan Walsh, Finance & Regulation Director
Ronan McKeown, Customer & Market Services Director
(appointed 1 January 2020)

Directors are required to comply with the requirements of NIE Networks' Code of Ethics. Directors make annual disclosures of any potential or actual conflicts of interest and are responsible for notifying the Company Secretary on an ongoing basis should they become aware of any change in their circumstances regarding conflicts of interest. Non-executive directors, in the furtherance of their duties, may take independent professional advice at the expense of NIE Networks. All Board members have access to the advice and services of the Company Secretary.

Papers and presentations are sent to each Board member electronically in advance to allow sufficient time to review and consider matters for discussion and decision. To monitor ongoing business performance the Board receives monthly updates on financial, and non-financial, performance against budgets and key performance indicators approved by the Board. The Board receives regular updates on Health, Safety and Environment, regulatory matters, HR matters including employee engagement and stakeholder engagement against approved plans. All information submitted to the Board and Audit & Risk Committee is subject to prior review by the Executive Committee and clearance by the Managing Director, with formal arrangements in place for supporting clearances for matters requiring the Board's approval.

The corporate relationship between NIE Networks and its shareholder, ESB, is set out formally, and specifies the standards of governance, internal control and risk management arrangements which NIE Networks must have in place, reporting arrangements to ESB, the responsibilities of the NIE Networks Board and Managing Director and the annual business planning process to meet Group requirements. The arrangements are consistent and compliant with NIE Networks' regulatory conditions and the Compliance Plan with respect to NIE Networks' independence within the ESB Group.

Opportunity and Risk

To ensure the long term sustainable success of NIE Networks, management continues to seek regulatory allowances or incentive arrangements as appropriate, for innovative developments to improve performance and to enable the long term development of the network for future customers. The current price control includes a provision to share reduced delivery costs under the 50/50 gain share mechanism and an incentive mechanism for achieving reductions in customer minutes lost, enabling the creation of value for both the business and customers. The Company has also agreed an allowance with the Utility Regulator to undertake a number of important network innovation projects.

The development of the roadmap for the long term transition to a distribution system operator, and the consideration of strategies to support and enable decarbonisation and electrification, overseen by the Board, are opportunities being pursued to sustain and enhance the relevance and value of the business in the longer term by adapting to changing external requirements.

Relevant international standards provide the framework to manage risks and opportunities in a number of key areas. NIE Networks' asset management, health and safety management and environmental management systems are accredited to ISO 55001: 2014, ISO 45001 and ISO 14001 respectively.

The Board has overall responsibility for risk management and internal control, ensuring that the Group's risk exposure remains proportionate to the pursuit of its strategic objectives and longer term stakeholder value. The Board delegates responsibility for oversight of risk to the Audit & Risk Committee which retains overall responsibility for ensuring that enterprise risks are properly identified, assessed, reported and controlled on behalf of the Board in its consideration of overall risk appetite, risk tolerance and risk strategy. The process of considering the Group's exposure to risk and the changes to key risks has assisted the Board in its review of strategy and the operational challenges faced by the Group.

The Board annually reviews and approves the Risk Management Policy to support its oversight of risk. The Committee of Sponsoring Organisations (COSO) Framework is used to guide NIE Networks in the management of uncertainty, whether positive or negative. NIE Networks' risk management framework provides clear policies, processes and procedures to ensure a consistent approach to risk identification, evaluation and management across the Group and includes appropriate structures to support risk management and the formal assignment of risk responsibilities to facilitate managing and reporting on individual risks. Each business unit maintains its own risk register.

The Risk Management Policy also outlines the risk management roles and responsibilities and the main organisational and procedural arrangements that apply to support the effective management of risk. At Executive level, the Risk Management Committee (RMC), chaired by the Finance & Regulation Director and comprising a number of Executive Committee members and senior managers, oversees and directs risk management in accordance with the approved policy. The RMC considers the status of principal risks and mitigation strategies biannually and reports on its activities to the Executive Committee, Audit & Risk Committee and the Board throughout the year.

The Audit & Risk Committee regularly reviews management's assessment of the principal risks and mitigating actions, 'High Impact Low Probability Risks', emerging risks, and considers detailed presentations on mitigating specific risks. Principal risks are set out in pages 19 – 22 in the Group Strategic Report. At least annually the Board considers and agrees risk tolerances for key business activities.

The Internal Audit function reports to the Audit & Risk Committee, independent of management, and provides independent assurance to the Audit & Risk Committee on the adequacy and effectiveness of NIE Networks' system of governance, risk management and control.

Remuneration

It is recognised that an effective remuneration policy aligned to business needs will underpin high performance. The Remuneration Policy for all employees on personal contracts, including senior executives and covering around 25% of employees, is subject to the Board's approval each year. The policy sets out how the Company will ensure that the remuneration of senior executives and other employees on personal contracts is aligned to market rates and allows for differentiation based on performance, competence, responsibilities and adherence to the Company's values and behaviours.

The policy provides that all senior executives and employees on personal contracts receive market-based remuneration based on detailed benchmarked data which is derived from a range of suitable sources and verified by an independent specialist third party. The policy sets out arrangements for each element of the remuneration package, comprising salary, performance related bonus, pension, private health insurance, death in service benefit, ill health retirement benefit and non-cash benefits, all of which are considered as part of any benchmarking exercise. The Board also approves a separate benchmarking policy, setting out the benchmarking process.

Salaries for all employees on personal contracts, including senior executives, are reviewed annually for potential cost of living increase, including a proportion which is dependent on the achievement of annual company performance targets, and is aligned with pay awards agreed with the trade union representing engineering staff.

The remuneration package for all employees on personal contracts, including senior executives, includes the potential to earn an annual performance related bonus based on the achievement of individual, team work and company-wide performance targets, which are aligned with meeting customer and stakeholder needs.

Stakeholder Relations and Engagement

NIE Networks operates across all of Northern Ireland, providing service to every home and business. The Board recognises that the Company's activities have a significant impact on many stakeholders, both current and future customers, members of the public in relation to safety and on the environment.

Key external stakeholder groups comprise the Utility Regulator, policy makers including relevant government departments and agencies; customers and their representative groups, electricity industry participants; industry groups; key suppliers; and bond investors.

The Board has endorsed the Company's external stakeholder engagement strategy, the key element of which is to set out the Company's current, and developing, role within the industry, how it ensures: reliability of network performance, safety of the network, minimal impact on the environment and continual improvement in customer service and satisfaction. The Managing Director chairs the Stakeholder Engagement Steering Group, comprising relevant senior managers, which oversees the implementation of the strategy. The strategy identifies key stakeholders and their issues and interests, the Company's objectives in the engagement process and the planned delivery against each objective.

The Board receives updates from the Managing Director at each Board meeting on key stakeholder engagement activity with updates on the implementation of the strategy biannually.

The non-executive directors are involved directly in engagement with the Utility Regulator Board members, senior government officials and elected representatives and industry groups as appropriate.

Further details on engagement with key stakeholders are provided on pages 16 – 18 of the Group Strategic Report.

Given its dependence on highly trained, skilled and engaged people within the business to achieve its objectives, the Board recognises that NIE Networks' most significant stakeholder group is its workforce. NIE Networks places considerable emphasis on its employee participation and engagement processes which are well embedded in the Company's culture. The HR Director, appointed to the Board during 2019, oversees and leads the employee engagement processes and provides updates on the processes and matters being addressed though the various forums to the Board biannually. The Board receives the results of employee engagement surveys, conducted externally every three years, and monitors the implementation of action plans for improvements arising from the feedback.

During 2019, the Board established the practice of holding two meetings each year at staff locations other than the Danesfort headquarters including informal engagement with employees. Non-executive directors also have opportunities to engage with employees by attending meetings of the Employee Engagement Board and various employee events.

Details of the employee engagement processes are provided on pages 14 – 15 of the Group Strategic Report.

Audit & Risk Committee

The Audit & Risk Committee is a formally constituted committee of the Board with responsibility for overseeing the Group's financial reporting process and internal control and risk management systems.

The Audit & Risk Committee comprises the independent non-executive directors and was chaired by Rotha Johnston throughout 2019 and to early March 2020 and by Keith Jess from early March 2020. The Board is satisfied that at least one member of the Committee is competent in accounting and auditing. The Committee had five meetings during 2019.

The terms of reference set out the duties of the Audit & Risk Committee. The most significant issues considered by the Committee during 2019, and up to the date of this report, are outlined below:

Financial Reporting

- reviewed the annual, interim and regulatory financial statements for NIE Networks and annual financial statements for NIE Finance PLC and NIE Networks Services Limited, considering the appropriateness of accounting policies, whether the financial statements give a true and fair view, the appropriateness of the going concern assumption and reviewing the significant issues and judgements; and
- reviewed various regulatory submissions.

Internal Control and Risk Management

- considered and approved the Risk Management Committee's work programme for 2019 and received regular updates on progress;
- considered the Group's principal risks faced together with mitigating actions being taken and their alignment to the risk tolerance levels agreed;
- reviewed and monitored the effectiveness of internal controls and the risk management framework;
- considered an updated risk appetite assessment relating to the Group's principal risks and other key business activities;
- considered an assessment of 'High Impact Low Probability' risks;
- monitored the potential impact of a 'no deal' scenario in relation to the UK's exit from the European Union;
- monitored progress to ensure compliance with the Data Protection Act and Networks Information Systems Directive;
- reviewed the Group's statements for publication on the prevention of slavery and human trafficking; and
- reviewed the operation of the Group's key ethics policies including the adequacy of the arrangements in place for employees to raise concerns about possible wrongdoing.

Internal Audit

- considered Deloitte's annual report of the internal audit plan conducted during 2018;
- reviewed and approved the 2019 internal audit plan and monitored progress against this plan to assess the effectiveness of this function;
- considered Deloitte's annual assurance opinion on the adequacy and effectiveness of the Group's governance, risk management and controls during 2019;
- reviewed reports detailing the results of internal audits and the timeliness of the implementation of actions; and
- reviewed and approved the 2020 internal audit plan to be conducted by Deloitte.

The Committee had the facility to discuss any areas of the programme with Deloitte without the presence of management.

External Audit

- reviewed reports from PricewaterhouseCoopers LLP (PwC) on the audit of the 2018 statutory financial statements and March 2019 regulatory financial statements and considered PwC's review of the June 2019 interim financial statements;
- reviewed the proposed external audit plan for the 2019 statutory financial statements to ensure that PwC had identified all key risks and developed robust audit procedures;
- considered PwC's adherence to independence requirements; and
- reviewed the report from PwC on the audit of the 2019 statutory financial statements and comments on accounting, financial control and other audit issues.

The Committee had the facility to discuss any areas of the audit with PwC without the presence of management.

In addition, during the year the Audit & Risk Committee reviewed its own effectiveness as part of the Board's performance evaluation.

Internal Control Framework

The directors acknowledge that they have responsibility for the Group's systems of internal control and risk management and monitoring their effectiveness. The purpose of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Group. Strong financial and business controls are necessary to ensure the integrity and reliability of financial information on which the Group relies for day-to-day operations, external reporting and for longer term planning.

The Group has in place a strong internal control framework which includes:

- a code of ethics that requires all Board members and employees to maintain the highest ethical standards in conducting business;
- a clearly defined organisational structure with defined authority limits and reporting mechanisms;
- comprehensive budgeting and business planning processes with an annual budget approved by the Board;
- a continuous forecasting and monitoring process to manage financial risk;
- an integrated accounting system with a comprehensive system of management and financial reporting. A monthly financial report is prepared which includes analysis of results along with comparisons to budget, forecasts and prior year results. These are reviewed by the Executive Committee and the Board members on a monthly basis;
- a financial control framework reviewed in accordance with statutory and regulatory obligations;
- a comprehensive set of policies and procedures relating to financial and operational controls including health and safety, regulation, HR, asset management, risk management and capital expenditure;
- a risk management framework including the maintenance of risk registers and ongoing monitoring of key risks and mitigating actions;
- appropriately qualified and experienced personnel including a governance team responsible for key controls testing;
- key managers formally evaluating the satisfactory and effective operation of financial and operational controls;
- internal auditors testing management's implementation of their recommendations following audit reviews; and
- a confidential helpline service to provide staff with a confidential, and if required, anonymous means to report fraud or ethical concerns.

The Board, supported by the Audit & Risk Committee, has reviewed the effectiveness of the system of internal control and has concluded that, during 2019, the overall governance, risk management and internal control framework was adequate to provide reasonable assurance of sound internal control and that NIE Networks maintained an effective system of internal control which would prevent or detect against material misstatement or loss.

Directors' Insurance

Insurance in respect of directors' and officers' liability is maintained by the Company's ultimate parent, ESB. This insurance was in place throughout the year and at the date of approval of these financial statements.

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 Group's auditors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Appointment of Auditors

In accordance with Section 487 of the Companies Act 2006, PwC will be deemed to be reappointed as external auditors of the Company.

Modern Slavery Act

Modern slavery is a criminal offence under the Modern Slavery Act 2015. The Act imposes obligations on organisations of a certain size. Modern Slavery can occur in various forms, including servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person's liberty by another in order to exploit them for personal or commercial gain. NIE Networks has adopted a Policy on Modern Slavery with the aim of preventing opportunities for modern slavery occurring within its business and supply chains. In accordance with the requirements of the Act, NIE Networks publishes a statement on its website on slavery and human trafficking.

Political Donations

No donations for political purposes have been made during the year (2018 - £nil).

Group Strategic Report

The following information required in the Group Directors' Report has been included in the Group Strategic Report and is included in this report by cross reference:

- an indication of future developments in the business (see pages 4 – 16);
- the Group's objectives and policies for financial risk management (including liquidity risk and credit risk) (see pages 6 - 8);
- a statement on the policy for disabled employees (see page 14);
- an indication of activities in the Group in the field of research and development (see pages 12 - 13);
- arrangements for employees to participate in the affairs of the Group (see pages 14 – 15);
- how the directors have engaged with employees, how they have had regard to employee interests and the effect of that regard, including on the principal decisions taken by the Group in the financial year (see pages 14 - 19); and
- how the directors have had regard to the need to foster the Group's business relationships with suppliers, customers and others and the effect of that regard, including on the principal decisions taken by the Group in the financial year (see pages 16 – 19).

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company 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 Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, 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 group and company will continue in business.

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

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Paul Stapleton
Managing Director

Northern Ireland Electricity Networks Limited
Registered Office:
120 Malone Road
Belfast BT9 5HT

Registered Number: NI026041

20 March 2020

Report on the audit of the financial statements

Opinion

In our opinion,

- Northern Ireland Electricity Networks Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the group and company balance sheets as at 31 December 2019; the group income statement and statement of comprehensive income, the group statement of cash flows, and the group and company 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.

Our opinion is consistent with our reporting to the Audit & Risk Committee.

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

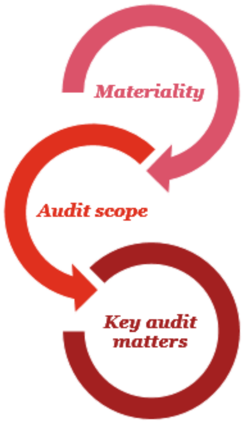
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall group materiality: £3,647,709 (2018: £3,307,500), based on 5% of profit before tax.
- Overall company materiality: £3,647,709 (2018: £3,207,500), based on 5% of profit before tax.

- We performed a full scope audit over the financially significant components (Northern Ireland Electricity Networks Limited and NIE Finance Plc).

- Accounting estimates – unbilled debt (Group and Company)
- Impact of COVID 19 (Group and Company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules and the requirements of the Northern Ireland Authority for Utility Regulation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management, internal audit and the group's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to accounting for unbilled debt;
- We have discussed and understood the nature of open matters between the company and the Northern Ireland Authority for Utility Regulation; and
- Identifying and testing journal entries, in particular any journal entries posted with an unusual description, unusual nominal account combinations against revenue, operating expenses and unbilled debt or entries made by unexpected persons.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Accounting estimates – unbilled debt Unbilled revenue is based on an estimation in respect of consumption derived using historical data and detailed assumptions. Estimation uncertainty and the complexity of calculations give rise to heightened misstatement risk and are therefore a focus of our audit work. *Group and company*	We understood and tested the processes and internal controls which Northern Ireland Electricity Networks Limited has in place for the estimation of unbilled revenue. We selected a sample of unbilled revenue amounts and checked the calculation of these amounts in light of actual billings subsequent to 31 December 2019 in order to ensure that the estimates made were not materially different.
Impact of COVID 19 The ongoing and evolving Covid-19 pandemic is having a significant impact on the global economy and the economy of Northern Ireland. There is significant uncertainty as to the duration of the pandemic and what its lasting impact will be on the local economy. The Group's activities would be considered to be those of a key industry, in that the Group is the owner of the electricity transmission network and the owner and operator of the electricity distribution network for Northern Ireland. The related financial impact on the group's and company's cash flow forecasts and therefore their ability to continue as a going concern, is expected to be primarily in terms of fluctuating electricity demands and changes in payment profiles of trade receivables. As at 31 December 2019 the Group and Company had undrawn facilities of £115m. *Group and company*	We held discussions with the Directors and reviewed board papers that modelled the sensitivity of cash flow forecasts to possible changes resulting from Covid-19. We challenged the key assumptions used in those sensitivities and the Group's and Company's ability to mitigate adverse cash flow impacts that may arise from fluctuating electricity demands and changes in payment profiles of trade receivables. Refer to the section on "Conclusions relating to going concern" in this report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

As part of our procedures to develop our Audit Strategy, as well as meeting with management, we attended a number of the Audit & Risk Committee meetings during the year, engaged with Internal Audit and performed interim review procedures.

The Northern Ireland Electricity Networks Limited Group comprises of Northern Ireland Electricity Networks Limited, NIE Finance PLC and NIE Networks Services Limited. All companies are financially significant to the group and therefore required an audit of their complete financial information.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	*Company financial statements*
Overall materiality	£3,647,709 (2018: £3,307,500).	£3,647,709 (2018: £3,207,500).
How we determined it	5% of profit before tax.	5% of profit before tax.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that was equal to our overall group materiality.

We agreed with the Audit & Risk Committee that we would report to them misstatements identified during our audit above £182,000 (Group audit) (2018: £165,000) and £182,000 (Company audit) (2018: £165,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability 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 2019 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 group and company and their 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 Directors' Responsibilities Statement set out on pages 31 – 32, 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 group's and 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 group or 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.

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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit & Risk Committee, we were appointed by the members on 17 October 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2017 to 31 December 2019.

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
11 June 2020

GROUP INCOME STATEMENT
for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Revenue	3	**276.3**	275.8
Operating costs	4	**(166.0)**	(166.7)
OPERATING PROFIT		**110.3**	109.1
Finance revenue	6	**0.3**	0.2
Finance costs	6	**(35.3)**	(38.3)
Net pension scheme interest	6	**(2.4)**	(3.0)
Net finance costs	6	**(37.4)**	(41.1)
PROFIT BEFORE TAX		**72.9**	68.0
Tax charge	7	**(13.8)**	(13.0)
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**59.1**	55.0

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2019
Group and Company

	Note	2019 £m	2018 £m
Profit for the financial year		**59.1**	55.0
Other comprehensive income:			
Items not to be reclassified to profit or loss in subsequent periods:			
Re-measurement (losses)/gains on pension scheme assets and liabilities	22	**(22.1)**	18.7
Deferred tax credit/(charge) relating to components of other comprehensive income	7	**3.8**	(3.2)
Net other comprehensive (expense)/income for the year		**(18.3)**	15.5
Total comprehensive income for the year attributable to the equity holders of the parent company		**40.8**	70.5

BALANCE SHEETS
as at 31 December 2019

		Group		Company	
	Note	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Non-current assets					
Property, plant and equipment	9	**1,849.3**	1,791.1	**1,850.1**	1,791.9
Right of use assets	10	**11.9**	-	**11.9**	-
Intangible assets	11	**19.4**	21.2	**19.4**	21.2
Derivative financial assets	18	**492.2**	486.9	**492.2**	486.9
Investments	12	**-**	-	**7.9**	7.9
		2,372.8	2,299.2	**2,381.5**	2,307.9
Current assets					
Inventories	13	**14.8**	13.4	**14.8**	13.4
Trade and other receivables	14	**53.3**	53.9	**53.3**	53.9
Current tax receivable		**1.9**	4.7	**1.9**	4.7
Derivative financial assets	18	**14.4**	12.5	**14.4**	12.5
Cash and cash equivalents	15	**9.0**	30.4	**9.0**	30.4
		93.4	114.9	**93.4**	114.9
TOTAL ASSETS		**2,466.2**	2,414.1	**2,474.9**	2,422.8
Current liabilities					
Trade and other payables	16	**71.0**	69.0	**80.2**	78.2
Lease liabilities	10	**2.8**	-	**2.8**	-
Current tax payable		**-**	-	**-**	-
Deferred income	17	**19.1**	18.6	**19.1**	18.6
Financial liabilities:					
Derivative financial liabilities	18	**14.4**	12.5	**14.4**	12.5
Other financial liabilities	19	**21.4**	17.2	**21.4**	17.2
Provisions	21	**3.4**	3.8	**3.4**	3.8
		132.1	121.1	**141.3**	130.3
Non-current liabilities					
Deferred tax liabilities	7	**71.2**	72.0	**71.2**	72.0
Deferred income	17	**516.0**	512.2	**516.0**	512.2
Lease liabilities	10	**9.1**	-	**9.1**	-
Financial liabilities:					
Derivative financial liabilities	18	**492.2**	486.9	**492.2**	486.9
Other financial liabilities	19	**747.2**	746.8	**747.2**	746.8
Provisions	21	**3.8**	4.0	**3.8**	4.0
Pension liability	22	**103.9**	97.5	**103.9**	97.5
		1,943.4	1,919.4	**1,943.4**	1,919.4
TOTAL LIABILITIES		**2,075.5**	2,040.5	**2,084.7**	2,049.7
NET ASSETS		**390.7**	373.6	**390.2**	373.1
Equity					
Share capital	23	**36.4**	36.4	**36.4**	36.4
Share premium	23	**24.4**	24.4	**24.4**	24.4
Capital redemption reserve	23	**6.1**	6.1	**6.1**	6.1
Accumulated profits	23	**323.8**	306.7	**323.3**	306.2
TOTAL EQUITY		**390.7**	373.6	**390.2**	373.1

The profit after tax of the Company for the year is £59.1m (2018 - £55.0m).

The financial statements on pages 38 to 69 were approved by the Board of Directors on 18 March 2020 and signed on its behalf by:

Paul Stapleton
Director
Date: 20 March 2020

Company number: NI026041

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2019

Group

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total equity £m
At 1 January 2018		**36.4**	**24.4**	**6.1**	**260.5**	**327.4**
Profit for the year		-	-	-	55.0	55.0
Net other comprehensive income for the year		-	-	-	15.5	15.5
Total comprehensive income for the year		-	-	-	70.5	70.5
Dividends to the shareholder	23	-	-	-	(22.0)	(22.0)
Opening balance adjustment on adoption of IFRS 15		-	-	-	(2.3)	(2.3)
At 31 December 2018		**36.4**	**24.4**	**6.1**	**306.7**	**373.6**
Profit for the year		-	-	-	59.1	59.1
Net other comprehensive expense for the year		-	-	-	(18.3)	(18.3)
Total comprehensive income for the year		-	-	-	40.8	40.8
Dividends to the shareholder	23	-	-	-	(23.7)	(23.7)
At 31 December 2019		**36.4**	**24.4**	**6.1**	**323.8**	**390.7**

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2019

Company

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total equity £m
At 1 January 2018		**36.4**	**24.4**	**6.1**	**260.0**	**326.9**
Profit for the year		-	-	-	55.0	55.0
Net other comprehensive income for the year		-	-	-	15.5	15.5
Total comprehensive income for the year		-	-	-	70.5	70.5
Dividends to the shareholder	23	-	-	-	(22.0)	(22.0)
Opening balance adjustment on adoption of IFRS 15		-	-	-	(2.3)	(2.3)
At 31 December 2018		**36.4**	**24.4**	**6.1**	**306.2**	**373.1**
Profit for the year		-	-	-	59.1	59.1
Net other comprehensive expense for the year		-	-	-	(18.3)	(18.3)
Total comprehensive income for the year		-	-	-	40.8	40.8
Dividends to the shareholder	23	-	-	-	(23.7)	(23.7)
At 31 December 2019		**36.4**	**24.4**	**6.1**	**323.3**	**390.2**

CASH FLOW STATEMENT
for the year ended 31 December 2019

	Note	Group 2019 £m	Group 2018 £m
Cash flows generated from operating activities			
Profit for the year		**59.1**	55.0
Adjustments for:			
Tax charge		**13.8**	13.0
Net finance costs		**37.4**	41.1
Depreciation of property, plant and equipment		**74.3**	70.5
Depreciation of leased assets		**2.9**	-
Amortisation of intangible assets		**4.9**	4.3
Release of customers' contributions and grants		**(18.5)**	(17.5)
Defined benefit pension charge less contributions paid		**(18.2)**	(13.8)
Net movement in provisions		**(0.6)**	0.5
Operating cash flows before movement in working capital		**155.1**	153.1
(Increase) / decrease in inventories		**(1.4)**	1.8
Decrease/(increase) in trade and other receivables		**0.6**	(0.9)
Decrease in trade and other payables		**(6.0)**	(20.3)
Increase in working capital		**(6.8)**	(19.4)
Cash generated from operations		**148.3**	133.7
Interest received		**0.3**	0.2
Interest paid		**(35.4)**	(39.1)
Lease interest paid		**(0.3)**	-
Current taxes received / (paid)		**1.4**	(4.1)
Net cash flows generated from operating activities		**114.3**	90.7
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(133.8)**	(147.9)
Customers' cash contributions		**22.8**	44.6
Purchase of intangible assets		**(3.1)**	(5.5)
Net cash flows used in investing activities		**(114.1)**	(108.8)
Cash flows generated from financing activities			
Dividends paid to shareholder		**(23.7)**	(22.0)
Amounts received from/(repaid to) group undertakings		**5.0**	(114.0)
Amounts received from financing activities		**-**	348.3
Repayment of external borrowings		**-**	(175.0)
Payment of lease liabilities		**(2.9)**	-
Net cash flows (used in)/generated from financing activities		**(21.6)**	37.3
Net (decrease)/increase in cash and cash equivalents		**(21.4)**	19.2
Cash and cash equivalents at beginning of year		**30.4**	11.2
Cash and cash equivalents at end of year	15	**9.0**	30.4

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 FINANCIAL STATEMENTS

1. General Information

Northern Ireland Electricity Networks Limited (NIE Networks or the Company) is a limited company incorporated, domiciled and registered in Northern Ireland (registered number NI026041). The Company's registered office address is 120 Malone Road, Belfast, BT9 5HT. The principal activities of the Company are:

- constructing and maintaining the electricity transmission and distribution networks in Northern Ireland and operating the distribution network;
- connecting demand and 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 market settlement.

2. Accounting Policies

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

New and revised accounting standards, amendments and interpretations
The Group has adopted IFRS 16, Leases', which is effective for the first time for the financial year beginning on 1 January 2019. The standard replaces IAS 17, 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019, and earlier application is permitted subject to EU endorsement and the entity adopting IFRS 15 at the same time.

The impact of adoption on the financial statements of the Group and Company is outlined below:

IFRS 16
IFRS 16 addressed the definition of a lease, the recognition and measurement of leases and it established principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases are accounted for on balance sheet for lessees. The Group has applied IFRS 16 on a modified retrospective basis without restating prior years.

The Group's financial liabilities associated with future lease commitments recognised on the balance sheet at 1 January 2019 were £12.0m and the corresponding right of use assets were £12.0m.

Presentational changes have been made to the Group's cash flow in accordance with the requirements of IFRS 16.

New and revised accounting standards, amendments and interpretations not yet adopted
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group or Company.

Basis of Preparation
The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS IC interpretations as adopted by the EU and applied in accordance with the provisions of the Companies Act 2006 as applicable to companies reporting under IFRS.

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The financial statements of the Group and Company have been prepared under the historical cost convention, as modified by the revaluation of derivative instruments at fair value through profit or loss.

The financial statements are presented in Sterling (£) with all values rounded to the nearest £100,000 except where otherwise indicated.

2. Accounting Policies (continued)

Basis of Preparation *(continued)*
The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirements of paragraphs 10(d), 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 17 and 18A of IAS 24 Related Party Disclosures relating to the disclosure of key management personnel compensation; and
d) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Basis of Preparation – Going Concern
The Group is financed through a combination of equity and debt finance. Details in respect of the Group's equity are shown in the Statement of Changes in Equity and in note 23 to the financial statements. The Group's debt finance at the year end comprised bonds of £350.0m and £400.0m (£348.4m and £398.8m respectively net of issue costs) which are due to mature in October 2025 and June 2026 respectively and £5.0m drawn down from a £120.0m Revolving Credit Facility (RCF) from ESB which is due to mature in December 2021.

The Group's liquidity risk is assessed through the preparation of cash flow forecasts. The Group's policy is to have sufficient funds in place to meet funding requirements for the next 12 - 18 months.

On the basis of their assessment of the Group's financial position, which included a review of the Group's projected funding requirements for a period of 12 months from the date of approval of the financial statements, the directors have a reasonable expectation that the Group will have adequate financial resources for the 12-month period. In light of the current Covid-19 pandemic, the directors have considered the possible financial impact on the Group's financial position. While the Covid-19 situation is evolving at a fast pace, the directors are of the opinion that the Group has adequate financial resources for the 12-month period. Accordingly the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and entities controlled by the Company (its subsidiaries), NIE Networks Services Limited and NIE Finance PLC. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power, directly or indirectly, to govern the financial and operating policies of the entity. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

Subsidiaries are consolidated from the day on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Company's investments in subsidiaries
The Company recognises its investments in subsidiaries at cost less any recognised impairment loss. Dividends received from subsidiaries are recognised in the income statement. The carrying values of investments in subsidiaries are reviewed annually for any indications of impairment, including whether the carrying value is impaired as a result of the receipt of dividends.

Property, plant and equipment
Property, plant and equipment is included in the balance sheet at cost, less accumulated depreciation and any recognised impairment loss. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate portion of overheads. Interest on funding attributable to significant capital projects is capitalised during the period of construction provided it meets the recognition criteria in IAS 23 and is written off as part of the total cost of the asset.

Freehold land is not depreciated. Other property, plant and equipment are depreciated on a straight-line basis so as to write off the cost, less estimated residual values, over their estimated useful economic lives as follows:

Infrastructure assets - up to 40 years
Non-operational buildings - freehold and long leasehold - up to 60 years
Fixtures and equipment - up to 10 years
Vehicles and mobile plant – up to 5 years

2. Accounting Policies (continued)

***Property, plant and equipment** (continued)*
The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Where the carrying value exceeds the estimated recoverable amount, the asset is written down to its recoverable amount.

The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from its continued use. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net selling price and the carrying amount of the asset.

Right of Use Assets and Lease liabilities
On entering a new lease contract, the Group recognises a right of use asset and a liability to pay future rentals. The liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate. The right of use asset is depreciated over the shorter of the term of the lease and the useful economic life, subject to review for impairment.

The low value and short term lease exemptions have been applied. The associated lease payments are expensed to the income statement as they are incurred.

Intangible assets - Computer software
The cost of acquiring computer software is capitalised and amortised on a straight-line basis over its estimated useful economic life which is between three and ten years. Costs include direct labour relating to software development and an appropriate portion of directly attributable overheads. Interest on funding attributable to significant capital projects is capitalised during the period of construction provided it meets the recognition criteria in IAS 23 and is written off as part of the total cost of the asset.

The carrying value of computer software is reviewed for impairment annually when the asset is not yet in use and subsequently when events or changes in circumstances indicate that the carrying value may not be recoverable.

Gains or losses arising from de-recognition of computer software are measured as the difference between the net selling price and the carrying amount of the asset.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is calculated as the weighted average purchase price. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Financial instruments
The accounting policies for the financial instruments of the Group are set out below. The related objectives and policies for financial risk management (including capital management and liquidity risk, credit risk and interest rate risk) are included in the Group Strategic Report.

The Group classifies its financial instruments into one of the categories discussed below, depending on the purpose for which the instrument was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss
This category comprises derivative assets and liabilities. Derivatives are carried in the balance sheet at fair value with changes in fair value recognised in the income statement within net finance costs.

Financial assets measured at amortised cost
Assets measured at amortised cost principally arise from the provision of services to customers (trade receivables) but also incorporate other types of financial assets where the objective is to hold assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

2. Accounting Policies (continued)

Financial instruments *(continued)*

Financial assets measured at amortised cost (continued)
The Group's financial assets are initially recorded at fair value. After initial recognition, financial assets are measured at amortised cost and comprise trade and other receivables, cash and cash equivalents.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with maturities of three months or less.

Trade and other receivables
Trade and other receivables do not carry any interest. The Group assesses, on a forward looking basis, the expected credit losses associated with trade receivables. The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

*Other financial liabilitie*s
Other financial liabilities include bank borrowings and trade payables. The Group's other financial liabilities are initially recorded at fair value and are subsequently carried at amortised cost.

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

Trade and other payables
Trade and other payables are not interest bearing. The Group's trade and other payables are initially recorded at fair value and subsequently carried at their amortised cost.

Borrowing costs
Borrowing costs attributable to significant capital projects are capitalised as part of the cost of the respective qualifying assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Revenue
Revenue is principally derived through charges for use of the distribution system (DUoS) levelled on electricity suppliers and transmission service charges (TSC) mainly for use of the transmission system levied on System Operator for Northern Ireland (SONI). NIE Networks is a regulated business, earning revenue primarily from an allowed return on its Regulated Asset Base (RAB).

Revenue is recognised when the Group has satisfied its performance obligations in respect of the contract with the customer. Revenue is measured based on the consideration specified in a contract with a customer. The following specific recognition criteria must also be met before revenue is recognised:

Interest receivable
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Distribution Use of System (DUoS) revenue
DUoS revenue is recognised over time in line with the use of the system by suppliers under the schedule of entitlement set by the Utility Regulator for each tariff period. Any outstanding billed and unbilled usage for DUoS is included within Use of System receivable at the balance sheet date. Revenue includes an assessment of the volume of electricity distributed, estimated using historical consumption patterns.

Transmission service charge revenue
Revenue is earned by maintaining the transmission assets to facilitate the effective operation by SONI. For this fixed price contract, revenue is recognised over time on a straight line basis in line with the schedule of entitlement set by the Utility Regulator for each tariff period and a Use of System receivable is recognised on the balance sheet.

2. Accounting Policies (continued)

Revenue *(continued)*

Public Service Obligation revenue
Included within the Group's operating profit are revenues and costs associated with the Public Service Obligation (PSO) charges which are fully recoverable (including amounts paid under the Northern Ireland Sustainable Energy Programme), albeit there are timing differences between the receipt of revenue / payment of costs and the recovery of those amounts through the PSO charges.

PSO revenue is earned over time in line with the use of system by suppliers under the schedule of entitlement set by the Utility Regulator for each tariff period. In addition to PSO tariff revenues, NIE Networks recognises income received from the Power Procurement Business (PPB) at a point in time as NIE Networks does not have control over the amount or timing of receipt of PPB revenues.

Customers' contributions
Customers' contributions received in respect of property, plant and equipment are deferred and released to revenue in the income statement by instalments over the estimated useful economic lives of the related assets.

Government grants
Government grants received in respect of property, plant and equipment are deferred and released to operating costs in the income statement by instalments over the estimated useful economic lives of the related assets. Grants received in respect of expenditure charged to the income statement during the period are included in the income statement.

Tax
The tax charge represents the sum of tax currently payable and deferred tax. Tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

Tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes both items of income or expense that are taxable or deductible in other years as well as items that are never taxable or deductible. The Company and Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is not recognised on temporary differences where they arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

2. Accounting Policies (continued)

Provisions
Provisions are recognised when (i) the Group has a present obligation (legal or constructive) as a result of a past event (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is included within finance costs.

Pensions and other post-retirement benefits
Employees of the Group are offered membership of the Northern Ireland Electricity Pension Scheme (NIEPS) which has both defined benefit and defined contribution pension arrangements. The amount recognised in the balance sheet in respect of liabilities represents the present value of the obligations offset by the fair value of assets.

Pension scheme assets are measured at fair value and liabilities are measured using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the liabilities. Full actuarial valuations are obtained at least triennially and updated at each balance sheet date. Re-measurements comprising of actuarial gains and losses and return on plan assets are recognised immediately in the period in which they occur and are presented in the statement of comprehensive income. Re-measurements are not reclassified to profit or loss in subsequent periods.

The cost of providing benefits under the defined benefit scheme is charged to the income statement over the periods benefiting from employees' service. These costs comprise current service costs, past service costs, gains or losses on curtailments and non-routine settlements, all of which are recognised in operating costs. Past service costs are recognised immediately to the extent that the benefits are already vested. Curtailment losses are recognised in the income statement in the period they occur.

Net pension interest on net pension scheme liabilities is included within net finance costs. Net interest is calculated by applying the discount rate to the net pension asset or liability.

Pension costs in respect of defined contribution arrangements are charged to the income statement as they become payable.

The Group has adopted the exemption allowed in IFRS 1 to recognise all cumulative actuarial gains and losses at the transition date in reserves.

Critical accounting judgements and key sources of estimation uncertainty

Pensions and other post-employment benefits
The estimation of and accounting for retirement benefit obligations involves judgements made in conjunction with independent actuaries. This involves estimates about uncertain future events including the life expectancy of scheme members, future salary and pension increases and inflation as well as discount rates. The assumptions used by the Group and a sensitivity analysis of a change in these assumptions are described in note 22.

Unbilled debt
Revenue includes an assessment of the volume of electricity distributed but not yet invoiced, estimated using historical consumption patterns. A corresponding receivable in respect of unbilled consumption is recognised within trade receivables.

Fair value measurement
The measurement of the Group's derivative financial instruments is based on a number of judgmental factors and assumptions which by necessity are not based on observable inputs. These have been classified as Level 2 financial instruments in accordance with IFRS 13. Further detail is provided in note 18.

3. Revenue

The Group's operating activities, which comprise one operating segment, are described in the Group Strategic Report. Financial information is reported to the Executive Committee and the Board on a consolidated basis and is not segmented.

All of the Group's revenue is derived from contracts with customers.

	2019 £m	2018 £m
Revenue:		
Regulated tariff revenue	**242.5**	239.2
Release of customers' contributions	**18.1**	17.0
PPB PSO	**6.8**	10.6
Other unregulated revenue	**8.9**	9.0
	276.3	275.8

Revenue of £276.3m (2018 - £275.8m) includes £9.6m (2018 - £14.2m) recognised at a point in time comprising PPB PSO revenue of £6.8m (2018 - £10.6m) and elements of other unregulated revenue £2.8m (2018 – £3.6m).

As outlined in note 14, the Group does not have contract assets arising from contracts with customers (2018 – none).

The Group's contract liabilities are in the form of payments received on account (note 16) and deferred income in respect of customers' contributions (note 17), both of which relate to amounts charged to customers in respect of connections to the network. Revenue from the release of customers' contributions of £17.9m (2018 - £17.0m) represents revenue recognised during the year which would have been included within contract liabilities in the prior year.

None of the Group's revenue recognised during the year (2018 – none) relates to performance obligations satisfied in prior years.

During the year, four customers accounted for sales revenue totalling £191.6m (2018 – three customers accounted for £158.0m).

Geographical information

The Group is of the opinion that all revenue is derived from the United Kingdom on the basis that the Group's assets, from which revenue is derived, are all located within the United Kingdom.

4. Operating Costs

Operating costs are analysed as follows:

	2019 £m	2018 £m
Employee costs (note 5)	**23.4**	34.1
Depreciation and amortisation	**81.7**	74.3
Other operating charges	**60.9**	58.3
	166.0	166.7

Operating costs include:

Depreciation charge on property, plant and equipment	**74.3**	70.5
Depreciation on right of use assets	**2.9**	-
Amortisation of intangible assets	**4.9**	4.3
Amortisation of grants	**(0.4)**	(0.5)
Cost of inventories recognised as an expense	**1.1**	1.1

Operating costs include:

Auditors' remuneration	**2019 £'000**	2018 £'000
PricewaterhouseCoopers LLP:		
Fees payable to the Group and Company auditors for the audit of the financial statements	**30.0**	49.0
Fees payable to the Group and Company auditors for other services:		
The audit of the company's subsidiaries pursuant to legislation	**4.0**	4.0
Audit related assurance services	**14.0**	50.0

5. Employees

Employee costs – Group and Company

	2019 £m	2018 £m
Wages and salaries	**50.9**	53.9
Social security costs	**5.5**	5.5
Pension costs		
- defined contribution plans	**6.5**	5.3
- defined benefit plans	**6.9**	14.3
	69.8	79.0
Less: amounts capitalised to property, plant and equipment and intangible assets	**(46.4)**	(44.9)
Charged to the income statement	**23.4**	34.1

Average and actual headcount for the Group and Company are disclosed in the table below:

	Average		**Actual headcount as at 31 December**	
	2019 Number	2018 Number	**2019 Number**	2018 Number
Management, administration and support	**298**	290	**306**	280
Electrical services	**906**	913	**910**	900
Employee numbers	**1,204**	1,203	**1,216**	1,180

5. Employees (continued)

Directors' emoluments

The remuneration of the directors paid by the Company was as follows:

	2019 £'000	2018 £'000
Emoluments in respect of qualifying services	**589**	662

Emoluments in respect of qualifying services include deferred remuneration awarded in the current and prior year but payable in future years. £50,000 is payable to directors in respect of termination benefits (2018 - £422,548). No amounts were paid to directors in respect of long-term incentive plans. The Company does not operate any share schemes therefore no directors exercised share options or received shares under long-term incentive schemes during either the current year or the previous year.

The number of directors to whom retirement benefits are accruing, under defined benefit and defined contribution pension schemes, was as follows:

	2019 Number	2018 Number
Defined benefit pension scheme	**-**	-
Defined contribution scheme	**2**	2

Aggregate contributions by the Company to the Company's defined contribution pension scheme in respect of the directors during the year was £60,771 (2018 - £23,791).

The remuneration in respect of the highest paid director was as follows:

For the year ended	2019 £'000	2018 £'000
Emoluments	**266**	287
Total accrued pension at 31 December (per annum)	**-**	-

Contributions by the Company to the Company's defined contribution pension scheme in respect of the highest paid director was £34,846 (2018 - £5,791).

6. Net Finance Costs

	2019 £m	2018 £m
Finance revenue:		
Bank interest receivable	**0.3**	0.2
Finance costs:		
£175m bond	**-**	(8.6)
£400m bond	**(25.5)**	(25.5)
£350m bond	**(8.8)**	(2.3)
Amounts payable to group undertakings (note 26)	**(0.3)**	(1.5)
Lease liabilities	**(0.3)**	-
	(34.9)	(37.9)
Less: capitalised interest	**-**	-
Total interest charged to the income statement	**(34.9)**	(37.9)
Other finance costs:		
Amortisation of financing charges	**(0.4)**	(0.4)
Total finance costs	**(35.3)**	(38.3)
Net pension scheme interest	**(2.4)**	(3.0)
Net finance costs	**(37.4)**	(41.1)

6. Net Finance Costs (continued)

Funds from Operations (FFO) Interest Cover Ratio

The Group considers the ratio of FFO to interest paid to be a key measure of the Group's financial health. FFO interest cover indicates the Group's ability to fund interest payments from cash flows generated from operations. The calculation of the ratio, as reported in the Financial Review, is shown below:

	2019 **£m**	2018 £m
Operating profit	**110.3**	109.1
Add back depreciation and amortisation	**81.7**	74.3
Deduct pension deficit repair contributions	**(18.4)**	(17.7)
Deduct amortisation of customer contributions	**(17.9)**	(17.0)
Deduct tax paid (including group relief paid)	**(10.0)**	(7.6)
Funds from operations	**145.7**	141.1
Interest paid	**(35.4)**	(39.1)
FFO to interest paid (times)	**4.1**	3.6

Pension deficit repair contributions of £18.4m (2018 - £17.7m) reflect contributions in respect of past service costs as explained in note 22.

7. Tax Charge

(i) Analysis of charge during the year

Group Income Statement	**2019** **£m**	2018 £m
Current tax charge		
UK corporation tax at 19.0% (2018 – 19.0%)	**10.8**	9.0
Over-provided in prior years	**-**	-
Total current income tax	**10.8**	9.0
Deferred tax charge		
Origination and reversal of temporary differences in current year	**3.0**	3.8
Origination and reversal of temporary differences in previous year	**-**	0.2
Total deferred tax charge	**3.0**	4.0
Total tax charge for the year	**13.8**	13.0

Tax relating to items charged in other comprehensive income

Deferred tax		
Deferred tax (credit) / charge relating to components of other comprehensive income	**(3.8)**	3.2

7. Tax Charge (continued)

(ii) Reconciliation of total tax charge

The tax charge in the Group Income Statement for the year is the same as (2018 – same as) the standard rate of corporation tax in the UK of 19.0% (2018 – 19.0%). The differences are reconciled below:

	2019 £m	2018 £m
Profit before tax	**72.9**	68.0
Profit before tax multiplied by the UK standard rate of corporation tax of 19.0% (2018 – 19.0%)	**13.8**	12.9
Tax effect of:		
Impact of deferred tax at reduced rate	**(0.3)**	(0.4)
Other permanent differences	**0.3**	0.3
Tax under provided in prior years	**-**	0.2
Total tax charge for the year	**13.8**	13.0

(iii) Deferred tax

The deferred tax included in the Group and Company Balance Sheet is as follows:

	2019 £m	2018 £m
Deferred tax assets		
Pension liability	**17.7**	16.5
Other temporary differences	**0.2**	0.2
	17.9	16.7
Deferred tax liabilities		
Accelerated capital allowances	**(88.3)**	(87.9)
Held-over losses on property disposals	**(0.8)**	(0.8)
	(89.1)	(88.7)
Net deferred tax liability	**(71.2)**	(72.0)

Deferred tax has been calculated at 17.0% as at 31 December 2019 (2018 – 17.0%) reflecting future reductions in the corporation tax rate enacted at the balance sheet date.

The deferred tax charge included in the Group Income Statement is as follows:

	2019 £m	2018 £m
Accelerated capital allowances	**0.3**	2.1
Temporary differences in respect of pensions	**2.7**	1.8
Other temporary differences	**-**	0.1
Deferred tax charge	**3.0**	4.0

8. Profit for the Financial Year

The profit of the Company is £59.1m (2018 - £55.0m). No separate income statement is presented for the Company as permitted by Section 408 of the Companies Act 2006.

9. Property, Plant and Equipment

Group	Infrastructure assets £m	Non-operational land and buildings £m	Fixtures and equipment £m	Vehicles and mobile plant £m	Total £m
Cost:					
At 1 January 2018	**2,639.5**	**5.1**	**81.9**	**2.4**	**2,728.9**
Additions	137.4	-	8.2	0.5	146.1
At 31 December 2018	**2,776.9**	**5.1**	**90.1**	**2.9**	**2,875.0**
Additions	120.6	-	11.6	0.3	132.5
At 31 December 2019	**2,897.5**	**5.1**	**101.7**	**3.2**	**3,007.5**
Depreciation:					
At 1 January 2018	**949.6**	**1.9**	**60.1**	**1.8**	**1,013.4**
Charge for the year	64.4	0.1	5.5	0.5	70.5
At 31 December 2018	**1,014.0**	**2.0**	**65.6**	**2.3**	**1,083.9**
Charge for the year	67.2	0.1	6.8	0.2	74.3
At 31 December 2019	**1,081.2**	**2.1**	**72.4**	**2.5**	**1,158.2**
Net book value:					
At 31 December 2018	1,762.9	3.1	24.5	0.6	1,791.1
At 31 December 2019	**1,816.3**	**3.0**	**29.3**	**0.7**	**1,849.3**

Infrastructure assets include amounts in respect of assets under construction of £80.4m (2018 - £83.1m).

Company	Infrastructure assets £m	Non-operational land and buildings £m	Fixtures and equipment £m	Vehicles and mobile plant £m	Total £m
Cost:					
At 1 January 2018	**2,641.1**	**5.1**	**81.9**	**2.4**	**2,730.5**
Additions	137.4	-	8.2	0.5	146.1
At 31 December 2018	**2,778.5**	**5.1**	**90.1**	**2.9**	**2,876.6**
Additions	120.6	-	11.6	0.3	132.5
At 31 December 2019	**2,899.1**	**5.1**	**101.7**	**3.2**	**3,009.1**
Depreciation:					
At 1 January 2018	**950.4**	**1.9**	**60.1**	**1.8**	**1,014.2**
Charge for the year	64.4	0.1	5.5	0.5	70.5
At 31 December 2018	**1,014.8**	**2.0**	**65.6**	**2.3**	**1,084.7**
Charge for the year	67.2	0.1	6.8	0.2	74.3
At 31 December 2019	**1,082.0**	**2.1**	**72.4**	**2.5**	**1,159.0**
Net book value:					
At 31 December 2018	1,763.7	3.1	24.5	0.6	1,791.9
At 31 December 2019	**1,817.1**	**3.0**	**29.3**	**0.7**	**1,850.1**

Infrastructure assets include amounts in respect of assets under construction of £80.4m (2018 - £83.1m).

10. Right of Use Assets and Lease Liabilities

Group and Company

	Land and Buildings £m	Vehicles £m	Total £m
Cost:			
Opening balance adjustment on adoption of IFRS 16	7.4	4.6	12.0
Additions	0.2	2.6	2.8
At 31 December 2019	**7.6**	**7.2**	**14.8**
Depreciation:			
At 1 January 2019	-	-	-
Charge for the year	0.7	2.2	2.9
At 31 December 2019	**0.7**	**2.2**	**2.9**
Net book value:			
At 31 December 2018	-	-	-
At 31 December 2019	**6.9**	**5.0**	**11.9**
Lease liabilities			
Current	0.9	1.9	2.8
Non-current	6.0	3.1	9.1
	6.9	**5.0**	**11.9**
Lease costs include:			
Depreciation on right-of-use assets (note 4)	0.7	2.2	2.9
Lease liabilities finance cost (note 6)	0.2	0.1	0.3
Expense relating to short-term leases included in operating costs	-	0.6	0.6
	0.9	**2.9**	**3.8**

11. Intangible Assets

Computer software – Group and Company

	2019 **£m**	2018 £m
Cost:		
At 1 January	**109.3**	103.8
Additions acquired externally	**3.1**	5.5
At 31 December	**112.4**	109.3
Amortisation:		
At 1 January	**88.1**	83.8
Amortisation charge for the year	**4.9**	4.3
At 31 December	**93.0**	88.1
Net book value:		
At 1 January	**21.2**	20.0
At 31 December	**19.4**	21.2

Software assets include amounts in respect of assets under construction amounting to £nil (2018 - nil).

Software assets include £8.6m (2018 - £12.2m) in respect of market and customer software invested in following separation from the Viridian Group. The relevant software has a remaining useful life of 2.5 years.

12. Investments

Company – Investment in subsidiaries

	2019 **£m**	2018 £m
Cost:		
At the beginning and end of the year	**7.9**	7.9

The Company holds the entire share capital of NIE Networks Services Limited and NIE Finance PLC which have been fully consolidated into the financial statements. All of the Company's subsidiaries are incorporated in the United Kingdom and hold registered office addresses at 120 Malone Road, Belfast, BT9 5HT.

The principal activity of NIE Networks Services Limited until 31 December 2015 was to provide construction maintenance, metering and other services to the Company. As NIE Networks Services Limited provided services to the Company, revenue on consolidation was £nil. On 1 January 2016, all assets, operations and employees of NIE Networks Services Limited transferred to NIE Networks and NIE Networks Services Limited ceased operational activity.

The principal activity of NIE Finance PLC is the provision of financing services, being the issuer of the £400m and £350m bonds which were on-lent to the Company. Further details of the bond issues are included in note 19.

Dormant subsidiaries
The Company holds 100% of the share capital of Northern Ireland Electricity Limited and NIE Limited. These companies are dormant and the carrying value of these investments as at 31 December 2019 is £nil (2018 - £nil).

13. Inventories

Group and Company	2019 £m	2018 £m
Materials and consumables	**14.5**	13.1
Work-in-progress	**0.3**	0.3
	14.8	13.4

14. Trade and Other Receivables

Group and Company	2019 £m	2018 £m
Current		
Trade receivables (including unbilled consumption)	**46.1**	47.8
Loss allowance	**(0.5)**	(0.7)
Trade receivables (net of provision)	**45.6**	47.1
Other receivables	**0.2**	0.6
Prepayments and accrued income	**3.6**	2.3
Amounts owed by fellow subsidiary undertakings (note 26)	**3.9**	3.9
	53.3	53.9

Trade receivables include amounts relating to unbilled consumption of £19.0m (2018 - £17.7m).The largest trade receivable at the year end, due from one customer, is £7.6m (2018 - £8.1m).

Trade receivables include £nil (2018 – nil) in respect of contract assets arising from contracts with customers.

Trade receivables are stated net of an allowance of £0.5m (2018 - £0.7m) for estimated irrecoverable amounts based on the lifetime expected credit loss of the trade receivable referencing the Group's past default experience. There are no allowances for estimated irrecoverable amounts included in 'amounts owed by fellow subsidiary undertakings'.

Group and Company	2019 £m	2018 £m
At the beginning of the year	**0.7**	0.5
Increase in allowance	**-**	0.3
Bad debts written off	**(0.2)**	(0.1)
At the end of the year	**0.5**	0.7

The allowance of £0.5m (2018 - £0.7m) reflects individual balances impaired based on past default experience.

The following shows an aged analysis of current trade receivables for the Group and Company:

	2019 £m	2018 £m
Within credit terms:		
Current	**42.1**	44.4
Past due but not impaired:		
Less than 30 days	**0.3**	0.2
30 - 60 days	**0.2**	0.7
60 - 90 days	**0.9**	1.0
+ 90 days	**2.1**	0.8
	45.6	47.1

The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used. The directors consider that the carrying amount of trade and other receivables approximates to fair value.

The Group's credit risk in respect of trade receivables from licensed electricity suppliers is mitigated by appropriate policies with security received in the form of cash deposits, letters of credit or parent company guarantees. With the exception of certain public bodies, payments in relation to new connections or alterations are received in advance of the work being carried out. Payments received on account are disclosed in note 16 to the financial statements.

15. Cash and Cash Equivalents

Group and Company

	2019 £m	2018 £m
Cash at bank and in hand	**9.0**	17.4
Short term deposits	**-**	13.0
	9.0	30.4

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are placed for varying periods of between one day and one month depending on the immediate cash requirements of the Group and Company, and earn interest at the respective short-term deposit rates.

The directors consider that the carrying amount of cash and cash equivalents equates to fair value.

16. Trade and Other Payables

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Trade payables	**15.0**	15.3	**15.0**	15.3
Payments received on account	**22.5**	11.9	**22.5**	11.9
Amounts owed to fellow subsidiary undertakings (note 26)	**7.7**	9.7	**7.7**	9.7
Amounts owed to subsidiary undertakings	**-**	-	**9.2**	9.2
Tax and social security	**4.7**	9.6	**4.7**	9.6
Accruals	**17.8**	20.4	**17.8**	20.4
Other payables	**3.3**	2.1	**3.3**	2.1
	71.0	69.0	**80.2**	78.2

The directors consider that the carrying amount of trade and other payables equates to fair value.

17. Deferred Income

Group and Company	Grants £m	Customers' contributions £m	Total £m
Current	0.5	17.5	18.0
Non-current	4.9	478.5	483.4
Total at 1 January 2018	**5.4**	**496.0**	**501.4**
Receivable	-	44.6	44.6
Released to income statement	(0.5)	(17.0)	(17.5)
Opening balance adjustment on adoption of IFRS 15	-	2.3	2.3
Current	0.5	18.1	18.6
Non-current	4.4	507.8	512.2
Total at 31 December 2018	**4.9**	**525.9**	**530.8**
Receivable	-	22.8	22.8
Released to income statement	(0.4)	(18.1)	(18.5)
Current	**0.3**	**18.8**	**19.1**
Non-current	**4.2**	**511.8**	**516.0**
Total at 31 December 2019	**4.5**	**530.6**	**535.1**

The opening balance adjustment on the adoption of IFRS 15 arose as a result of the change in the timing of recognition of an aspect of connections revenue. The £2.3m increase in customers' contributions in 2018 reflected revenue recognised in the income statement during 2017 in respect of contracts with customers for which performance obligations were not complete as at 31 December 2017. A corresponding reduction has been recognised in accumulated profits and disclosed in the Statement of Changes in Equity of both the Group and Company.

18. Derivative Financial Instruments

Group and Company - Interest rate swaps	2019 £m	2018 £m
Current assets	**14.4**	12.5
Non-current assets	**492.2**	486.9
	506.6	499.4
Current liabilities	**(14.4)**	(12.5)
Non-current liabilities	**(492.2)**	(486.9)
	(506.6)	(499.4)

The Company has held a £550m portfolio of inflation-linked interest rate swaps (the RPI swaps) since December 2010. The fair value of inflation linked interest rate swaps is affected by relative movements in interest rates and market expectations of future retail price index (RPI) movements.

The RPI swaps were originally put in place by the Viridian Group (the Group's previous parent undertaking) in 2006 to better match NIE Networks' debt and related interest payments with its inflation-linked regulated assets and associated revenue – in the nature of economic hedge. As part of the acquisition of NIE Networks by ESB in 2010, the swaps were novated to NIE Networks.

18. Derivative Financial Instruments (continued)

During 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. Nothing was paid in respect of swap accretion in 2019 (2018 - £71.5m). Future accretion payments are now scheduled to occur every 5 years, with remaining accretion paid on maturity.

At the same time that the restructuring took effect in 2014, the Company entered into RPI linked interest rate swap arrangements with ESBNI, the immediate parent undertaking of the Company, which have identical matching terms to the restructured swaps. The back to back matching swaps with ESBNI ensure that there is no net effect on the financial statements of the Company and that any risk to financial exposure is borne by ESBNI. The fair value movements have been recognised in finance costs in the income statement effectively offsetting the fair value movements of interest rate swap liabilities.

Arising from a negative impact of higher forward RPI rates, partly reduced by a positive impact of higher forward interest rates, negative fair value movements of £20.4m occurred in 2019 (2018 – negative fair value movements of £5.7m). These have been recognised in finance costs in the income statement. Given the back to back matching swaps with ESBNI, there is a matching positive fair value movement of £20.4m in 2019 (2018 – matching positive fair value movement of £5.7m).

During 2019 the Company made swap interest payments of £13.2m (2018: £14.3m). Due to the back to back arrangements, the Company had matching swap interest receipts of £13.2m (2018: £14.3m). Due to the back to back arrangements with ESBNI Limited, no net swap interest cost arises on these transactions and therefore they have been netted in finance costs.

In June 2019 the Company novated £66m of the RPI interest linked swaps from one swap counterparty to an existing swap counterparty, thereby reducing the overall number of swap counterparties. Due to the back to back arrangements with ESBNI Limited, no gain or loss has been recognised within the Company or Group as a result of the novation.

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. 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 interest rate swaps as at 31 December 2019 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 and 3 of the hierarchy during the year.

Independent valuations are used in measuring the interest rate swaps and validated using the present valuation of expected cash flows using a constructed zero-coupon discount curve. The zero-coupon curve uses the interest rate yield curve of the relevant currency. Future cash flows are estimated using expected RPI benchmark levels as well as expected LIBOR rate sets.

An increase / (decrease) of 0.5% in interest rates would decrease / (increase) the fair value of interest rate swap liabilities by £49.9m / (£53.2m) (2018 - £53.2m / (£56.7m)). However, the swap arrangements entered into with ESBNI hedge the Company's cash flows in respect of these liabilities and therefore, an increase / (decrease) of 0.5% in interest rates would increase / (decrease) the fair value of the interest rate swap assets by £49.9m / (£53.2m) (2018 - £53.2m / (£56.7m)) and thereby offset the exposure to the swap liabilities. These sensitivities are based on an assessment of market rate movements during the period and each is considered to be a reasonably possible range.

19. Other Financial Liabilities

	Group		Company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Current				
Interest payable on £400m bond	**14.8**	14.8	**-**	-
Interest payable on £350m bond	**1.5**	2.3	**-**	-
Interest payable to group undertaking (note 26)	**0.1**	0.1	**0.1**	0.1
Interest payable to subsidiary undertaking	**-**	-	**16.3**	17.1
£175m bond	**-**	-	**-**	-
Amounts owed to group undertaking (note 26)	**5.0**	-	**5.0**	-
	21.4	17.2	**21.4**	17.2
Non-current				
£400m bond	**398.8**	398.7	**-**	-
£350m bond	**348.4**	348.1	**-**	-
Amounts owed to subsidiary undertaking	**-**	-	**747.2**	746.8
	747.2	746.8	**747.2**	746.8

Loans and other borrowings outstanding are repayable as follows:

Group and Company	**2019**	2018
	£m	£m
In one year or less or on demand	**21.4**	17.2
Between two and five years	**-**	-
In more than five years	**747.2**	746.8
	768.6	764.0

Other financial liabilities are held at amortised cost.

The principal features of the Group's borrowings are as follows:

- the 15 year £400m bond is repayable in 2026 and carries a fixed rate of interest of 6.375% which is payable annually in arrears on 2 June. The bond issue incurred £2.1m of costs associated with raising finance. In back to back arrangements, NIE Finance PLC has a loan of £400m with the Company, which was issued net of £2.1m of costs associated with raising finance. Interest is paid on the loan at a fixed rate of 6.375% annually in arrears on 2 June; and
- the 7 year £350m bond is repayable in 2025 and carries a fixed rate of interest of 2.500% which is payable annually in arrears on 27 October. The bond issue incurred £1.9m of costs associated with raising finance. In back to back arrangements, NIE Finance PLC has a loan of £350m with the Company, which was issued net of £1.9m of costs associated with raising finance. Interest is paid on the loan at a fixed rate of 2.500% annually in arrears on 27 October.

The £400m and £350m bonds, which are listed on the London Stock Exchange's regulated market, had fair values at 31 December 2019 of £526.6m (2018 - £519.6m) and £364.2m (2018 - £352.0m) respectively, based on current market prices. The Company's back-to-back loans had a fair value at 31 December 2019 of £526.6m (2018 - £519.6m) and £364.2m (2018 - £352.0m) respectively based on the fair value of the £400m and £350m bonds.

The fair value of bonds as at 31 December 2019 is considered by the Company to fall within the level 1 fair value hierarchy (defined within note 18). There have been no transfers between levels in the hierarchy during the year.

Given that 99.3% (2018 – 100%) of Group and Company borrowings carry fixed interest rates, the Group and Company are not significantly exposed to movements in interest rates during the year.

The table below summarises the maturity profile of the Group's financial liabilities (excluding tax and social security) based on contractual undiscounted payments:

19. Other Financial Liabilities (continued)

At 31 December 2019

	On demand £m	**Within 1 Year £m**	**1 to 5 years £m**	**More than 5 years £m**	**Total £m**
£400m bond (including interest payable)	**-**	**25.5**	**102.0**	**451.0**	**578.5**
£350m bond (including interest payable)	**-**	**8.8**	**35.0**	**358.7**	**402.5**
RCF (including interest payable)	**-**	**-**	**5.0**	**-**	**5.0**
Trade and other payables	**22.5**	**38.8**	**-**	**-**	**61.3**
Interest rate swap liabilities	**-**	**14.5**	**175.3**	**361.8**	**551.6**
Lease Liabilities	**-**	**2.8**	**5.1**	**4.0**	**11.9**
	22.5	**90.4**	**322.4**	**1,175.5**	**1,610.8**

At 31 December 2018	On demand £m	Within 1 Year £m	1 to 5 years £m	More than 5 years £m	Total £m
£400m bond (including interest payable)	-	25.5	102.0	476.5	604.0
£350m bond (including interest payable)	-	9.5	35.0	367.5	412.0
Trade and other payables	11.9	47.5	-	-	59.4
Interest rate swap liabilities	-	12.5	173.3	375.7	561.5
	11.9	95.0	310.3	1,219.7	1,636.9

The table below summarises the maturity profile of the Company's financial liabilities (excluding tax and social security) based on contractual undiscounted payments.

At 31 December 2019

	On demand £m	**Within 1 Year £m**	**1 to 5 years £m**	**More than 5 years £m**	**Total £m**
Amounts owed to subsidiary undertaking	**-**	**34.3**	**137.0**	**809.7**	**981.0**
Trade and other payables	**22.5**	**48.0**	**-**	**-**	**70.5**
Interest rate swap liabilities	**-**	**14.5**	**175.3**	**361.8**	**551.6**
RCF (including interest payable)	**-**	**-**	**5.0**	**-**	**5.0**
Lease Liabilities	**-**	**2.8**	**5.1**	**4.0**	**11.9**
	22.5	**99.6**	**322.4**	**1,175.5**	**1,620.0**

At 31 December 2018	On demand £m	Within 1 Year £m	1 to 5 years £m	More than 5 years £m	Total £m
Amounts owed to subsidiary undertaking	-	35.0	137.0	844.0	1,016.0
Trade and other payables	11.9	56.7	-	-	68.6
Interest rate swap liabilities	-	12.5	173.3	375.7	561.5
	11.9	104.2	310.3	1,219.7	1,646.1

20. Analysis of Net Debt

Group

	At 1 January 2019 £m	Cash flow £m	Non-cash movement £m	At 31 December 2019 £m
Cash and cash equivalents	**30.4**	(21.4)	-	**9.0**
Interest payable on £400m bond	**(14.8)**	25.5	(25.5)	**(14.8)**
Interest payable on £350m bond	**(2.3)**	9.5	(8.8)	**(1.6)**
Interest payable to group undertaking	**(0.1)**	0.3	(0.3)	**(0.1)**
£400m bond	**(398.7)**	-	(0.1)	**(398.8)**
£350m bond	**(348.1)**	-	(0.3)	**(348.4)**
Amounts owed to group undertaking	**-**	(5.0)	-	**(5.0)**
Lease liabilities	**-**	3.1	(15.0)	**(11.9)**
	(733.6)	12.0	(50.0)	**(771.6)**

Company

	At 1 January 2019 £m	Cash flow £m	Non-cash movement £m	At 31 December 2019 £m
Cash and cash equivalents	**30.4**	(21.4)	-	**9.0**
Interest payable to group undertaking	**(0.1)**	0.3	(0.3)	**(0.1)**
Interest payable to subsidiary undertaking	**(17.1)**	35.0	(34.3)	**(16.4)**
Amounts owed to group undertaking	**-**	(5.0)	-	**(5.0)**
Amounts owed to subsidiary undertaking	**(746.8)**	-	(0.4)	**(747.2)**
Lease liabilities	**-**	3.1	(15.0)	**(11.9)**
	(733.6)	12.0	(50.0)	**(771.6)**

21. Provisions

Group and Company

	Environment £m	Liability and damage claims £m	Total £m
Current	0.6	0.5	1.1
Non-current	1.0	2.9	3.9
Total at 1 January 2018	**1.6**	**3.4**	**5.0**
Charged to income statement	-	3.4	3.4
Utilised in the year	-	(0.6)	(0.6)
Current	**0.6**	**3.2**	**3.8**
Non-current	**1.0**	**3.0**	**4.0**
Total at 1 January 2019	**1.6**	**6.2**	**7.8**
Utilised in the year	-	(1.3)	(1.3)
Charged to income statement	-	0.7	0.7
Current	**0.6**	**2.8**	**3.4**
Non-current	**1.0**	**2.8**	**3.8**
Total at 31 December 2019	**1.6**	**5.6**	**7.2**

21. Provisions (continued)

Environment
Provision has been made for expected costs of decontamination and demolition arising from obligations in respect of power station sites formerly owned by the Group. It is anticipated that the expenditure relating to the non-current portion of the provision will take place within the next five years.

Liability and damage claims
Notwithstanding the intention of the directors to defend vigorously claims made against the Group, liability and damage claim provisions have been made which represent the directors' best estimate of costs expected to arise from ongoing third party litigation and employee matters. The non-current element of these provisions is expected to be utilised within a period not exceeding five years.

22. Pension Commitments

Most employees of the Group are members of Northern Ireland Electricity Pension Scheme (NIEPS or the scheme). The scheme has two sections: 'Options' which is a money purchase arrangement whereby the Group generally matches the members' contributions up to a maximum of 7% of salary and 'Focus' which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the scheme are held under trust and invested by the trustees on the advice of professional investment managers. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets and the day-to-day administration of the benefits of the scheme.

As the benefits paid to members of the Options section of the scheme are directly related to the value of assets for Options, there are no funding issues with this section of the scheme. The remainder of this note is therefore in respect of the Focus section of the scheme.

Under the Focus section of the scheme, employees are entitled to annual pensions on retirement at age 63 (for members who joined after 1 April 1988) of one-sixtieth of final pensionable salary for each year of service. Benefits are also payable on death and following events such as withdrawing from active service.

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the scheme was carried out by a qualified actuary as at 31 March 2017 and showed a deficit of £136.9m. The Company is paying deficit contributions of £17.2m per annum (increasing in line with inflation) from 1 April 2018. The Company also pays contributions of 39.6% of pensionable salaries in respect of Focus employees currently employed in the company (active members of the scheme) plus £77,500 monthly expenses, with active members paying a further 6% of pensionable salaries.

Profile of the scheme
The net liability includes benefits for current employees, former employees and current pensioners. Broadly, about 25% of the liabilities are attributable to current employees, 3% to former employees and 72% to current pensioners. The scheme duration is an indication of the weighted average time until benefit payments are made. For the NIEPS, the duration is around 14 years (2018 – 14 years) based on the last funding valuation.

Risks associated with the scheme

Asset volatility – liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (equities and diversified growth funds) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation of growth assets is monitored to ensure it remains appropriate given the scheme's long-term objectives.

Changes in bond yields – a decrease in corporate bond yields will increase the value placed on the scheme's liabilities for accounting purposes although this is likely to be partially offset by an increase in the value of the scheme's bond holdings.

Inflation risk – the majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the scheme assets are either unaffected by, or only loosely correlated with, inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy – the majority of the scheme's obligations are to provide benefits for the life of the member, so an increase in life expectancy will increase the liabilities.

22. Pension Commitments (continued)

The Company and the trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes a liability driven investment policy which aims to reduce the volatility of the funding level of the plan by investing in assets such as index-linked gilts which perform in line with the liabilities of the plan so as to protect against inflation being higher than expected.

The trustees insure certain benefits payable on death before retirement.

Mercer Limited, NIE Networks' actuary, has provided a valuation of Focus under IAS 19 as at 31 December 2019 based on the following assumptions (in nominal terms) and using the projected unit credit method:

	2019	2018
Rate of increase in pensionable salaries (per annum)	**2.75%**	3.20%
Rate of increase in pensions in payment (per annum)	**2.10%**	2.10%
Discount rate (per annum)	**2.00%**	2.80%
Inflation assumption (CPI) (per annum)	**2.10%**	2.10%
Life expectancy:		
Current pensioners (at age 60) – males	**26.3 years**	26.2 years
Current pensioners (at age 60) – females	**28.7 years**	28.6 years
Future pensioners (at age 60) – males	***27.9 years**	* 27.8 years
Future pensioners (at age 60) – females	***30.3 years**	* 30.2 years

* Life expectancy from age 60 for males and females currently aged 40.

The life expectancy assumptions are based on standard actuarial mortality tables and include an allowance for future improvements in life expectancy.

The valuation under IAS 19 at 31 December 2019 shows a net pension liability (before deferred tax) of £103.9m (2018 - £97.5m). The table below shows the possible (increase) / decrease in the net pension liability that could result from changes in key assumptions:

	Increase in assumption		**Decrease in assumption**	
	2019 £m	**2018 £m**	**2019 £m**	**2018 £m**
0.5% change in rate of increase in pensionable salaries	**(9.3)**	(7.9)	**9.1**	7.6
0.5% change in rate of pensions in payments	**(67.2)**	(58.2)	**64.2**	55.7
0.5% change in annual discount rate	**78.9**	68.1	**(83.2)**	(71.8)
0.5% change in annual inflation rate (CPI)	**(77.3)**	(66.9)	**73.6**	63.7
1 year change in life expectancy	**(46.9)**	(40.1)	**46.9**	40.1

Assets and Liabilities

The Group and Company's share of the assets and liabilities of Focus are:

	Value at 31 December 2019 £m	Value at 31 December 2018 £m
Equities – quoted	**215.1**	229.1
Bonds – quoted	**312.8**	232.0
Diversified growth funds – quoted	**371.8**	377.9
Multi-asset credit investments	**215.0**	208.7
Cash	**12.3**	7.0
Total market value of assets	**1,127.0**	1,054.7
Actuarial value of liabilities	**(1,230.9)**	(1,152.2)
Net pension liability	**(103.9)**	(97.5)

22. Pension Commitments (continued)

Changes in the market value of assets – Group and Company

	2019 £m	2018 £m
Market value of assets at the beginning of the year	**1,054.7**	1,139.2
Interest income on scheme assets	**28.9**	27.6
Contributions from employer	**25.0**	28.1
Contributions from scheme members	**0.4**	0.3
Benefits paid	**(67.9)**	(83.3)
Administration expenses paid	**(1.5)**	(1.6)
Re-measurement gains / (losses) on scheme assets	**87.4**	(55.6)
Market value of assets at the end of the year	**1,127.0**	1,054.7

Changes in the actuarial value of liabilities – Group and Company

	2019 £m	2018 £m
Actuarial value of liabilities at the beginning of the year	**1,152.2**	1,266.2
Interest expense on pension liability	**31.3**	30.6
Current service cost	**5.3**	6.9
Curtailment costs	**0.1**	4.1
Past service costs	**-**	1.7
Contributions from scheme members	**0.4**	0.3
Benefits paid	**(67.9)**	(83.3)
Effect of changes in demographic assumptions	**-**	(45.7)
Effect of changes in financial assumptions	**112.1**	(44.4)
Effect of experience adjustments	**(2.6)**	15.8
Actuarial value of liabilities at the end of the year	**1,230.9**	1,152.2

The curtailment loss (cost) arising in 2019 and 2018 reflects past service costs associated with employees leaving the company under a restructuring exit arrangement.

Past service costs of £nil in 2019 (2018 - £1.7m) reflect changes to member benefits arising from a clarification of the law in respect of Guaranteed Minimum Pension Equalisation for male and female members.

The Group expects to make contributions of approximately £25.2m to Focus in 2020.

The Group's share of the NIEPS service costs is allocated based on the pensionable payroll. Contributions from employer, interest cost liabilities, interest income on assets and experience gains or losses are allocated based on the Group's share of the NIEPS net pension liability.

Analysis of the amount charged to operating costs (before capitalisation)

	2019 £m	2018 £m
Current service cost	**(5.3)**	(6.9)
Administration expenses paid	**(1.5)**	(1.6)
Curtailment costs	**(0.1)**	(4.1)
Past service costs	**-**	(1.7)
Total operating charge	**(6.9)**	(14.3)

Focus has been closed to new members since 1998 and therefore under the projected unit credit method the current service cost for members of this section as a percentage of salary will increase as they approach retirement age.

22. Pension Commitments (continued)

Analysis of the amount charged to net pension scheme interest

	2019 £m	2018 £m
Interest income on scheme assets	**28.9**	27.6
Interest expense on liabilities	**(31.3)**	(30.6)
Net pension scheme interest expense	**(2.4)**	(3.0)

The actual return on Focus assets was a gain of £121.5m for the Group and Company (2018 - loss of £28.0m for the Group and Company).

Analysis of amounts recognised in the Statement of Comprehensive Income

	2019 £m	2018 £m
Re-measurement gains / (losses) on scheme assets	**87.4**	(55.6)
Actuarial (losses) / gains on scheme liabilities	**(109.5)**	74.3
Net (losses)/gains	**(22.1)**	18.7

The cumulative actuarial losses recognised in the Group and Company Statements of Comprehensive Income since 1 April 2004 are £154.5m and £156.6m respectively (2018 – £132.4m and £134.5m respectively). The directors are unable to determine how much of the net pension liability recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since the inception of Focus. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income shown before 1 April 2004.

23. Share Capital and Equity

	Group		**Company**	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Share capital	**36.4**	36.4	**36.4**	36.4
Share premium	**24.4**	24.4	**24.4**	24.4
Capital redemption reserve	**6.1**	6.1	**6.1**	6.1
Accumulated profits	**323.8**	306.7	**323.3**	306.2
	390.7	373.6	**390.2**	373.1

The balance classified as share capital comprises the nominal value of the Company's equity share capital.

The balance classified as share premium records the total net proceeds on the issue of the Company's equity share capital less the nominal value of the share capital.

The balance classified as capital redemption reserve arises from the legal requirement to maintain the capital of the Company following the return of that amount of capital to shareholders on 2 August 1995.

Allotted and fully paid share capital:	**2019 £m**	2018 £m
145,566,431 ordinary shares of 25p each	**36.4**	36.4

23. Share Capital and Equity (continued)

Dividend
The following dividends were paid by the Company

	2019 £m	2018 £m
16.3 pence per allotted share (2018 – 15.1 pence)	**23.7**	22.0

24. Commitments and Contingent Liabilities

(i) Capital commitments
At 31 December 2019 the Group and Company had contracted future capital expenditure in respect of property, plant and equipment of £16.5m (2018 - £13.8m) and computer assets of £4.5m (2018 - £4.4m).

(ii) 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 (as disclosed in note 21) 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 year end.

25. Financial Commitments

In June 2011 and September 2018 NIE Finance PLC, a subsidiary undertaking of the Company, issued £400m and £350m bonds respectively on behalf of the Company. The Bonds have been admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's regulated market. The payments of all amounts in respect of the £400m and £350m bonds are unconditionally and irrevocably guaranteed by the Company.

26. Related Party Disclosures

Remuneration of key management personnel
The compensation paid to key management personnel is set out below. Key management personnel of the Group comprise the directors of the Company and the executive team.

	2019 £m	2018 £m
Salaries and short-term employee benefits	**1.5**	1.6
Post-employment benefits	**0.4**	0.3
Other long-term benefits	**-**	0.1
Termination benefits	**0.1**	0.4
	2.0	2.4

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 the Company is a member and for which group financial statements 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 financial statements 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 financial statements.

Related parties of the Company also include the subsidiaries listed in note 12.

26. Related Party Disclosures (continued)

Transactions between the Group and related parties together with the balances outstanding are disclosed below:

	Interest charges £m	Revenue from related party £m	Charges from related party £m	Other transactions with related party £m	Amounts owed by related party at 31 December £m	Amounts owed to related party at 31 December £m
Year ended 31 December 2019						
ESB	**(0.3)**	**-**	**-**	**-**	**-**	**(5.1)**
ESB subsidiaries	**-**	**31.1**	**(3.3)**	**(23.7)**	**3.9**	**(7.7)**
	(0.3)	**31.1**	**(3.3)**	**(23.7)**	**3.9**	**(12.8)**
Year ended 31 December 2018						
ESB	(1.5)	-	-	-	-	(0.1)
ESB subsidiaries	-	24.8	(5.4)	(22.0)	3.9	(9.7)
	(1.5)	24.8	(5.4)	(22.0)	3.9	(9.8)

Transactions with ESB group undertakings are determined on an arm's length basis and outstanding balances with ESB group undertakings are unsecured. Interest charges and amounts owed to ESB relate to the RCF provided by ESB. Revenue from and amounts owed by ESB subsidiaries primarily arise from regulated sales to ESB subsidiaries. Charges from and amounts owed to ESB subsidiaries primarily arise from services purchased. Other transactions with related parties shown above relate to dividends paid to the shareholder. Amounts in relation to the back to back swaps with ESBNI Limited are detailed in note 18.

Other related parties

During the year the Group and Company contributed £31.5m (2018 - £33.4m Group and Company) to NIEPS in respect of Focus and Options employer contributions, including an element of deficit repair contributions in respect of Focus.

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