Northern Ireland Electricity Networks

UNAUDITED INTERIM REPORT & ACCOUNTS

Six months ended 30 June 2018

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INTERIM MANAGEMENT REPORT six months to 30 June 2018

The directors present their interim management report for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (the Group) for the six months ended 30 June 2018.

NIE Networks is part of the Electricity Supply Board (ESB), the vertically integrated energy group based in the Republic of Ireland. NIE Networks is an independent business within ESB with its own Board of Directors, management and staff. During the period there were a number of changes to the composition of the Board as follows: Alan Bryce was appointed as an independent non-executive director on 1 January 2018; Ronnie Mercer retired as an independent non-executive director on 3 March 2018; and Paul Stapleton replaced Nicholas Tarrant as Managing Director on 1 May 2018. The other directors, who continued to hold office during the period and to the date of approving this report are: Stephen Kingon (independent non-executive Chairman), Rotha Johnston (independent non-executive director) and Peter Ewing (Deputy Managing Director and Director of Regulation and Market Operations).

NIE Networks is the owner of the electricity transmission and distribution networks in Northern Ireland and is the electricity distribution network operator, serving around 877,000 customers connected to the network.

The Group's principal activities are:

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

Business Update

Price Control

NIE Networks is regulated by the Northern Ireland Authority for Utility Regulation (the Utility Regulator) and 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 £697 million for capital investment and £456 million in respect of operating costs (2017-18 prices). The 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.

The RP6 baseline rate of return of 3.18% 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.

Financial results

Operating Profit

Group operating profit includes revenues and costs associated with the Public Service Obligation (PSO) charges which are fully recoverable, albeit there are timing differences between the receipt of revenue / payment of costs and the recovery of those amounts through the PSO charges. Excluding amounts attributable to PSO charges, which contributed a net surplus of £11.1m during the six month period (six months to June 2017 - £3.7m deficit), the Group's operating profit for the six month period decreased from £51.7m to £46.7m reflecting redundancy costs of £7.1m. The redundancy costs were incurred against the backdrop of the RP6 price control and cost reduction challenges due to market opening in connections.

FFO Interest Cover
The ratio of FFO (funds from operations) to interest paid increased to 4.0 times for the period (six months to 30 June 2017 – 3.4 times) reflecting the increased operating profits.

Net Assets
The Group's net assets increased from £327.4m as at 31 December 2017 to £416.7m as at 30 June 2018 reflecting profit after tax of £29.7m together with re-measurement gains (net of tax) on pension scheme liabilities of £61.9m reflecting an increase in the discount rate used to value scheme liabilities and revised mortality assumptions following the latest scheme valuation.

Cash Flow
Cash and cash equivalents were largely unchanged during the period reflecting net cash flows from operating activities of £88.6m, investing activity out flows of £84.5m and a reduction in amounts borrowed from group undertakings of £4.0m.

Operations

Key Performance Indicators (KPIs) are used to measure progress towards achieving operational objectives. Performance during the year is summarised below:

KPIs	**Six months ended 30 June**		Year ended 31 December
	2018	2017	2017
Safety:			
Lost time incidents	**2**	1	1
Network Performance:			
Customer Minutes Lost (CML)			
• Planned CML *(minutes)*	**21**	34	62
• Fault CML *(minutes)*	**29**	31	57
Customer Service:			
Overall standards – failures *(number of)*	**None**	None	None
Guaranteed standards – defaults *(number of)*	**None**	None	1
Stage 2 complaints to the Consumer Council *(number of)*	**None**	1	2
Connections:			
Customer demand connections completed *(number of)*	**2,452**	2,653	5,557
Renewable generation connected *(MW)*			
• Large scale (> 5MW)	**120**	191	287
• Small scale (< 5MW)	**25**	52	71
Sustainability:			
Waste recycling rate *(%)*	**97**	99	98

Safety
Ensuring the safety of employees, contractors and the general public continued 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. There were two lost time incidents during the period (2017 – one). The target for lost time incidents continues to be set at zero.

Network Performance
The average number of minutes lost per consumer through pre-arranged shutdowns for maintenance and construction (Planned CML) fell from 34 to 21 reflecting increased live line working and a reduction in the number of programmed outages compared to the same period in the previous year. CML through distribution fault interruptions (Fault CML) were similar to the previous period.

Customer Service

The Utility Regulator sets overall and guaranteed standards for NIE Networks' performance. All the overall standards were achieved and there were no defaults against the guaranteed standards for customer services activities delivered during the period (2017 – none). No Stage 2 complaints were taken up by the Consumer Council on behalf of customers during the period (2017 – one).

Connections

The number of customer demand connections completed fell from 2,653 to 2,452 mainly reflecting a reduction in the number of applications for connections.

Significant progress was made during the period in completing generation connections in line with developers' requirements to meet accreditation deadlines for the Northern Ireland Renewables Obligation (NIRO) scheme. A total 145MW of renewable generation capacity was connected during the six month period. The total level of renewable generation capacity connected to the network is now c1.6GW.

During the period NIE Networks has continued to make progress with industry stakeholders to establish arrangements to enable further generation to connect to the distribution network, including consultation and publication of a decision paper in relation to the Distribution Generation Application and Offer Process.

The market for greater than 5MW distribution connections has been open to competition since May 2016 and the market for distribution connections lower than 5MW opened to competition on 28 March 2018. For 'contestable' elements of these connections, customers can choose whether to accept a quotation from NIE Networks or to engage an accredited Independent Connection Provider (ICP) to construct the connection.

Sustainability

The recycling rate for all hazardous and non-hazardous waste (excluding excavation from roads and footpaths, civil projects excavation and asbestos removal) continued at a high level with 97% of waste recycled during the period.

Principal Risks and Uncertainties

The principal risks and uncertainties facing NIE Networks for the remainder of the financial year, which are managed under NIE Networks' risk management framework, are as set out in the Group's latest annual report for the year to 31 December 2017 which is available at www.nienetworks.co.uk.

GROUP INCOME STATEMENT

	Note	Six months ended 30 June 2018 Unaudited £m	2017 Unaudited £m	Year ended 31 December 2017 Audited £m
Revenue	2	**143.5**	127.2	261.1
Operating costs		**(85.7)**	(79.2)	(166.2)
OPERATING PROFIT		**57.8**	48.0	94.9
Finance costs		**(19.6)**	(19.0)	(38.5)
Net pension scheme interest		**(1.5)**	(1.8)	(3.6)
Net finance costs		**(21.1)**	(20.8)	(42.1)
PROFIT BEFORE TAX		**36.7**	27.2	52.8
Tax charge	3	**(7.0)**	(5.3)	(8.1)
PROFIT FOR THE PERIOD / YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**29.7**	21.9	44.7

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2018 Unaudited £m	2017 Unaudited £m	Year ended 31 December 2017 Audited £m
Profit for the financial period / year	**29.7**	21.9	44.7
Other comprehensive income / (expense):			
Re-measurement gains / (losses) on pension scheme assets and liabilities	**74.6**	(4.3)	8.2
Deferred tax (charge) / credit relating to components of other comprehensive income	**(12.7)**	0.7	(1.4)
Net other comprehensive income / (expense) for the period / year	**61.9**	(3.6)	6.8
Total net comprehensive income for the period / year	**91.6**	18.3	51.5

GROUP BALANCE SHEET

	Note	As at 30 June 2018 Unaudited £m	2017 Unaudited £m	As at 31 December 2017 Audited £m
Non-current assets				
Property, plant and equipment	4	**1,757.3**	1,647.8	1,715.5
Intangible assets	4	**19.7**	21.8	20.0
Derivative financial assets	6	**465.1**	554.3	500.0
		2,242.1	2,223.9	2,235.5
Current assets				
Inventories		**12.8**	14.3	15.2
Trade and other receivables		**41.1**	45.3	57.1
Current tax asset		**0.6**	-	1.4
Derivative financial assets	6	**75.5**	14.8	79.5
Cash and cash equivalents		**11.3**	11.4	11.2
		141.3	85.8	164.4
TOTAL ASSETS		**2,383.4**	2,309.7	2,399.9
Current liabilities				
Trade and other payables	6	**63.5**	122.6	89.2
Current tax payable		**5.5**	2.8	-
Deferred income		**19.2**	17.5	18.0
Financial liabilities:				
Derivative financial liabilities	6	**75.5**	14.8	79.5
Other financial liabilities	6, 7	**296.4**	11.5	307.2
Provisions		**5.8**	1.1	1.1
		465.9	170.3	495.0
Non-current liabilities				
Deferred tax liabilities		**78.9**	60.3	64.7
Deferred income		**508.2**	455.9	483.4
Financial liabilities:				
Derivative financial liabilities	6	**465.1**	554.3	500.0
Other financial liabilities	6, 7	**398.6**	607.7	398.5
Provisions		**3.4**	4.0	3.9
Pension liability	8	**46.6**	145.0	127.0
		1,500.8	1,827.2	1,577.5
TOTAL LIABILITIES		**1,966.7**	1,997.5	2,072.5
NET ASSETS		**416.7**	312.2	327.4
Equity				
Share capital		**36.4**	36.4	36.4
Share premium		**24.4**	24.4	24.4
Capital redemption reserve		**6.1**	6.1	6.1
Accumulated profits		**349.8**	245.3	260.5
TOTAL EQUITY		**416.7**	312.2	327.4

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

Paul Stapleton
Director

Date: 06 September 2018

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 January 2017	**36.4**	**24.4**	**6.1**	**227.0**	**293.9**
Profit for the year	-	-	-	44.7	44.7
Net other comprehensive expense for the year	-	-	-	6.8	6.8
Total net comprehensive expense for the year	-	-	-	51.5	51.5
Dividends to the shareholder	-	-	-	(18.0)	(18.0)
At 1 January 2018	**36.4**	**24.4**	**6.1**	**260.5**	**327.4**
Profit for the period	-	-	-	29.7	29.7
Net other comprehensive expense for the period	-	-	-	61.9	61.9
Total net comprehensive income for the period	-	-	-	91.6	91.6
IFRS 15 opening reserves adjustment				(2.3)	(2.3)
At 30 June 2018	**36.4**	**24.4**	**6.1**	**349.8**	**416.7**

	Share Capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 January 2017	**36.4**	**24.4**	**6.1**	**227.0**	**293.9**
Profit for the period	-	-	-	21.9	21.9
Net other comprehensive expense for the period	-	-	-	(3.6)	(3.6)
Total net comprehensive expense for the period	-	-	-	18.3	18.3
At 30 June 2017	**36.4**	**24.4**	**6.1**	**245.3**	**312.2**

GROUP CASH FLOW STATEMENT

	Six months ended 30 June 2018 Unaudited £m	Six months ended 30 June 2017 Unaudited £m	Year ended 31 December 2017 Audited £m
Cash flows from operating activities			
Profit for the period/year	**29.7**	21.9	44.7
Adjustments for:			
Tax charge	**7.0**	5.3	8.1
Net finance costs	**21.1**	20.8	42.1
Depreciation of property, plant and equipment	**35.0**	32.2	66.0
Release of customers' contributions and grants	**(8.6)**	(7.8)	(16.0)
Amortisation of intangible assets	**2.2**	2.6	5.2
Contributions in respect of property, plant and equipment	**32.2**	50.1	86.3
Defined benefit pension charge less contributions paid	**(7.3)**	(7.2)	(14.4)
Net movement in provisions	**4.1**	-	(0.2)
Operating cash flows before movement in working capital	**115.4**	117.9	221.8
(Increase) / Decrease in working capital	**(0.5)**	1.8	(45.0)
Cash generated from operations	**114.9**	119.7	176.8
Interest paid	**(26.3)**	(25.7)	(38.2)
Current taxes paid	**-**	(3.1)	(5.8)
Net cash flows from operating activities	**88.6**	90.9	132.8
Cash flows used in investing activities			
Purchase of property, plant and equipment	**(82.6)**	(104.3)	(206.9)
Purchase of intangible assets	**(1.9)**	-	(0.9)
Net cash flows used in investing activities	**(84.5)**	(104.3)	(207.8)
Cash flows (used in) / from financing activities			
Dividends paid to shareholder	**-**	-	(18.0)
Amounts (repaid to) / borrowed from group undertakings	**(4.0)**	15.5	94.9
Net cash flows (used in) / from financing activities	**(4.0)**	15.5	76.9
Net increase in cash and cash equivalents	**0.1**	2.1	1.9
Cash and cash equivalents at beginning of period / year	**11.2**	9.3	9.3
Cash and cash equivalents at end of period / year	**11.3**	11.4	11.2

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

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. Basis of Preparation

The condensed interim accounts for the period ended 30 June 2018 have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting” and the Disclosure and Transparency Rules of the Financial Conduct Authority.

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

The condensed interim accounts have been prepared on the basis of the accounting policies set out in the accounts for the year ended 31 December 2017.

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

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

The information shown for the year ended 31 December 2017 does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and has been extracted from the Group's report for the year ended 31 December 2017, which has been filed with the Registrar of Companies. The report of the auditors on the accounts contained within the Group's report for the year ended 31 December 2017 was unmodified and did not contain a statement under either Section 498(2) or Section 498(3) of the Companies Act 2006 regarding inadequate accounting records or a failure to obtain necessary information and explanations.

New and revised accounting standards, amendments and interpretations

IFRS 15, ‘Revenue from contracts with customers’
IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18, ‘Revenue’, and IAS 11, ‘Construction contracts’, and related interpretations. The standard was effective for annual periods beginning on or after 1 January 2018. IFRS 15 has been applied retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application.

There has been no material impact in respect of revenue derived from distribution use of system tariffs, PSO charges and transmission service charges as a result of adopting this standard.

In respect of revenue earned through charges for new connections to the network, there is a change in the timing of recognition in respect of some elements of connections revenue, however, this change will have no impact on the future operating profit of the Group.

IFRS 9, ‘Financial instruments’
IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. An expected credit losses model replaces the incurred loss impairment model used in IAS 39.

1. Basis of Preparation (continued)

***New and revised accounting standards, amendments and interpretations** (continued)*

IFRS 9, 'Financial instruments' (continued)
For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018.

The classification and measurement basis for the Group's financial assets and liabilities is largely unchanged by the adoption of IFRS 9. The main impact of adopting IFRS 9 arises from the implementation of the expected credit losses model, however, due to the Group's limited exposure to credit risk in respect of its trade receivables this has not had a material impact on the financial statements of the Group.

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 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group. The more significant future accounting standards and how they may apply to the Group are discussed below:

IFRS 16, 'Leases'
IFRS 16 addresses the definition of a lease, recognition and measurement of leases, and it establishes 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 will be accounted for on balance sheet for lessees.

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, 'Revenue from contracts with customers', at the same time.

The Group continues to assess the impact of IFRS 16 on the financial statements. At this stage, the directors anticipate that the adoption of IFRS 16 may result in changes in the presentation of the Group's accounts from 2019.

2. Revenue

	Six months ended 30 June		Year ended 31 December
	2018	2017	2017
	£m	£m	£m
Revenue:			
Sales revenue	**135.1**	119.6	245.6
Amortisation of customer contributions from deferred income	**8.4**	7.6	15.5
	143.5	127.2	261.1

The Group's operating activities, which are described in the interim management report, comprise one operating segment. Sales revenue consists largely of tariffs income.

3. Tax Charge

	Six months ended 30 June **2018** **£m**	2017 £m	Year ended 31 December 2017 £m
Current tax charge			
UK corporation tax at 19.0% (2017 – 19.5%)	**5.5**	4.0	6.4
Over-provided in prior years	**-**	-	(2.0)
Total current tax	**5.5**	4.0	4.4
Deferred tax charge			
Origination and reversal of temporary differences in current period	**1.5**	1.3	3.7
Total deferred tax charge	**1.5**	1.3	3.7
Total tax charge	**7.0**	5.3	8.1

4. Capital Expenditure

	Six months ended 30 June **2018** **£m**	2017 £m	Year ended 31 December 2017 £m
Property, plant and equipment	**76.8**	102.9	204.2
Intangible assets - computer software	**1.9**	-	0.9
	78.7	102.9	205.2

No assets were disposed of by the Group during the period (2017 - £nil).

5. Capital commitments

At 30 June 2018 the Group had contracted future capital expenditure in respect of property, plant and equipment of £13.6m (June 2017 - £17.0m) and computer software assets of £4.7m (June 2017 - £1.1m).

6. Financial Instruments

An overview of financial instruments, other than cash, short-term deposits and prepayments, held by the Group as at 30 June 2018 is as follows:

As at 30 June 2018	**Loans and receivables £m**	**Fair value profit or loss £m**
Financial assets:		
Trade and other receivables	39.5	-
Interest rate swaps	-	75.5
Total current	**39.5**	**75.5**
Interest rate swaps	-	465.1
Total non-current	-	**465.1**
Total financial assets	**39.5**	**540.6**
Financial liabilities:		
Trade and other payables	63.5	-
Interest rate swaps	-	75.5
Interest bearing loans and borrowings	296.4	-
Total current	**359.9**	**75.5**
Interest rate swaps	-	465.1
Interest bearing loans and borrowings	398.6	-
Total non-current	**398.6**	**465.1**
Total financial liabilities	**758.5**	**540.6**

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

NIE Networks has held a £550m portfolio of inflation linked interest rate 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.

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 (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. Future accretion payments are now scheduled to occur every five years, starting in December 2018, with remaining accretion paid at maturity.

At the same time that the restructuring took effect the Company entered into RPI linked interest rate swap arrangements with ESBNI Limited, the immediate parent undertaking of the Company, which have identical matching terms to the restructured swaps. The back to back matching swaps with ESBNI Limited ensure that there is no net effect on the accounts of the Company and that any risk to financial exposure is borne by ESBNI Limited. The fair value movements have been recognised in finance costs in the income statement. Positive fair value movements of £31.7m arose on the swaps in the six months ended 30 June 2018 (June 2017: positive fair value movements of £21.8m) and were recognised within finance costs in the income statement, as hedge accounting was not available.

6. Financial instruments (continued)

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

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

The fair value of interest rate swaps as at 30 June 2018 is considered by the Company to fall within the level 2 fair value hierarchy. The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between level 1 or 3 of the hierarchy during the period.

7. Net Debt

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Cash at bank and in hand	**11.3**	11.4	11.2
Debt due before 1 year:			
Interest payable on £175m bond	**(9.4)**	(9.4)	(3.4)
Interest payable on £400m bond	**(2.0)**	(2.0)	(14.8)
Interest payable to parent undertaking	**(0.1)**	(0.1)	(0.2)
£175m bond	**(174.9)**	-	(174.8)
Amounts owed to parent undertaking	**(110.0)**	-	(114.0)
	(296.4)	(11.5)	(307.2)
Debt due after 1 year:			
£175m bond	**-**	(174.7)	-
£400m bond	**(398.6)**	(398.5)	(398.5)
Amounts owed to parent undertaking	**-**	(34.5)	-
	(398.6)	(607.7)	(395.5)
Total net debt	**(683.7)**	(607.8)	(694.5)

8. Pension Commitments

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Market value of assets	**1,100.1**	1,113.0	1,139.2
Actuarial value of liabilities	**(1,146.7)**	(1,258.0)	(1,266.2)
Net pension liability	**(46.6)**	(145.0)	(127.0)

Changes in the market value of assets

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Market value of assets at beginning of the period / year	**1,139.2**	1,105.4	1,105.4
Interest income on scheme assets	**14.0**	14.7	29.3
Contributions from employer	**15.1**	12.1	25.4
Contributions from scheme members	**0.2**	0.2	0.4
Benefits paid	**(45.6)**	(29.4)	(66.7)
Administration expenses paid	**(0.8)**	(0.8)	(1.3)
Re-measurement gains on scheme assets	**(22.0)**	10.8	46.7
Market value of assets at end of the period / year	**1,100.1**	1,113.0	1,139.2

Changes in the actuarial value of liabilities

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Actuarial value of liabilities at beginning of the period / year	**1,266.2**	1,251.4	1,251.4
Interest expense on pension liability	**15.5**	16.5	32.9
Current service cost	**3.5**	4.1	8.0
Curtailment loss	**3.5**	0.1	1.7
Contributions from scheme members	**0.2**	0.2	0.4
Benefits paid	**(45.6)**	(29.4)	(66.7)
Effects of changes in demographic assumptions	**(46.3)**	-	-
Effect of changes in financial assumptions	**(56.7)**	15.1	32.9
Effect of experience adjustments	**6.4**	-	5.6
Actuarial value of liabilities at end of the period / year	**1,146.7**	1,258.0	1,266.2

9. Related Party Transactions

During the period ended 30 June 2018, the Group contributed £17.8m (2017 - £14.2m) to the Northern Ireland Electricity Pension Scheme.

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

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

	Interest charges £m	Revenue from related party £m	Charges from related party £m	Amounts owed by related party at period end £m	Amounts owed to related party at period end £m
Six months ended 30 June 2018					
ESB	**(0.7)**	**-**	**-**	**-**	**(110.1)**
ESB subsidiaries	**-**	**12.4**	**(1.9)**	**2.7**	**(0.9)**
	(0.7)	**12.4**	**(1.9)**	**2.7**	**(111.0)**
Six months ended 30 June 2017					
ESB	(0.2)	-	-	-	(34.6)
ESB subsidiaries	-	8.1	(2.2)	1.9	(0.5)
	(0.2)	8.1	(2.2)	1.9	(35.1)

10. Contingent Liabilities

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

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

Although the Tribunal stated that evidence of a loss of value was insufficient, compensation was awarded in both cases using an 'intuitive approach'. As the Company knows of no precedent for the use of such an approach, the Company lodged an appeal to the Court of Appeal. The appeal decision is awaited and until it is known, it remains uncertain as to whether a liability will arise. Therefore the Company has not provided for any compensation awarded by the Tribunal in these accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Each of the directors, named on page 1, confirm that to the best of their knowledge:

(i) the interim accounts have been prepared in accordance with IAS 34 “Interim Financial Reporting” and give a true and fair view of the assets, liabilities, financial position and profit of the Group for the six months to 30 June 2018; and

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

By order of the Board

Paul Stapleton
Director

06 September 2018

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