UNAUDITED INTERIM REPORT & FINANCIAL STATEMENTS

Six months ended 30 June 2021

INVESTORS IN PEOPLE | Gold

INTERIM MANAGEMENT REPORT six months to 30 June 2021

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 2021.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 December 2020.

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. Directors who held office during the period and to the date of approving this report are: Dame Rotha Johnston (independent non-executive Chair of the Board), Alan Bryce (independent non-executive Director), Keith Jess (independent non-executive Director), Paul Stapleton (Managing Director) and Gordon Parkes (Human Resources Director).

NIE Networks is the owner of the electricity transmission and distribution networks in Northern Ireland and is the electricity distribution network operator, serving around 895,000 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 set ex-ante allowances of £745 million for capital investment and £487 million in respect of operating costs (2020-21 prices). The allowances in respect of major transmission load growth projects are 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 3.14% 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 was introduced at the start of 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.

Covid-19
NIE Networks' Crisis Management Team and Executive Committee continue to co-ordinate the Company's response to addressing the challenges posed by the ongoing Covid-19 pandemic in line with Government guidance, restrictions and safety protocols. At the onset of the pandemic in 2020, the Company identified three main priorities:

- protect the safety, health and wellbeing of our employees and customers;
- maintain a reliable electricity supply to our customers across Northern Ireland; and
- protect our business to safeguard employment and enable a successful return to normal operations.

The steps taken by the Company and its staff in adapting its working environments to deal with the challenges posed by Covid-19 have ensured that the Company has been able to deliver planned work programmes and maintain a reliable electricity service to its customers. Management continues to monitor the ongoing impact of the pandemic and has taken steps to mitigate the operational and financial impacts on the Company and ensure the health, safety and wellbeing of its employees.

Financial results

Operating Profit
The Group's operating profit for the six-month period decreased from £67.9m to £60.7m. Group revenue of £146.5m has decreased by £9.3m primarily reflecting an £18.0m decrease in revenues associated with the Public Service Obligation (PSO); offset by a £7.6m increase in Distribution Use of System (DUoS) revenue. Higher DUoS revenue is reflective of an increase in the Group's investment in its Regulated Asset Base. Group operating costs of £85.8m have decreased by £2.1m, predominantly due to the non-recurrence of additional operational costs incurred in the prior period when restrictions on capital work programmes resulted in higher net payroll costs being charged to the Income Statement.

PSO revenue allows NIE Networks to recover the net cost of supporting industry programmes such as the Northern Ireland Sustainable Energy Programme. 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. Over time, PSO related income and costs net to nil, albeit there are timing differences between the receipt of revenue and payment of costs. The net PSO expense included in operating profit in the current period is £7.1m (2020: net PSO income £11.2m).

Tax Charge
In March 2021 the UK Government announced that future Corporation Tax rates would increase from the current rate of 19% to 25%, effective from 1 April 2023. The effect of the increase in the expected future Corporation Tax rate has resulted in a one-off charge to the Income Statement of £35.8m in the current period.

FFO Interest Cover
The ratio of Funds from Operations (FFO) to interest paid decreased to 3.3 times for the period (six months to 30 June 2020 - 3.5 times), reflecting a decrease in funds from operations during the period.

Net Assets
The Group's net assets of £499.2m have increased by £74.2m in the six months to 30 June 2021 reflecting re-measurement gains (net of tax) on pension scheme liabilities of £65.6m and a deferred tax credit recognised in equity relating to the change in future tax rate of £11.0m; offset by a loss after tax of £2.4m.

Cash Flow
Cash and cash equivalents decreased by £1.7m in the period reflecting net cash inflows from operating activities of £50.6m, investing activity outflows of £50.7m reflecting the Group's continued investment in the network and financing activity outflows of £1.6m. The Group's Revolving Credit Facility (RCF) was not utilised during the period.

Operations

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

KPIs	**Six months ended 30 June**		Year ended 31 December
	2021	2020	2020
Health and Safety:			
Fatality	**None**	None	1
Lost time incidents *(number of)*	**None**	None	2
Network Performance:			
Customer Minutes Lost (CML)			
• Planned CML *(minutes)*	**18**	12	33
• Fault CML *(minutes)*	**16**	22	41
Customer Service:			
Overall standards – failures *(number of)*	**1**	None	None
Guaranteed standards – defaults *(number of)*	**None**	None	None
Stage 2 complaints to the Consumer Council	**None**	None	2
Connections:			
Customer demand connections completed including non-recoverable alterations *(number of)*	**2,293**	1,829	4,051
Sustainability:			
Reduction in non-network carbon emissions	**5.9%**	18.7%	11.0%
Waste recycling rate *(%)*	**97.3%**	97.0%	92.7%
Staffing:			
Headcount (at 30 June/31 December)	**1,205**	1,202	1,200
Absenteeism *(%)*	**3.21%**	3.11%	2.86%

Health and 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 no lost time incidents during the period (2020 – None).

The Company's "Safer Together – Our Pathway to Zero Harm" plan was developed as an enabling action plan to improve adherence to our safety value, reduce the risk of harm and improve the wellbeing of our staff within the organisation. It was developed using feedback from safety focus groups held in October 2020 and the wider organisation learning arising from inquiries into a number of serious incidents and a fatal incident at Drumnakelly Main substation in August 2020.

The Safer Together Programme aims to refocus our commitment to our safety value, through promoting an open and proactive safety culture with the full involvement of all. This is being reinforced through strong and visible leadership and the development of a series of safety improvements.

A significant number of initiatives have been identified across the Company, with the majority of these expected to be completed and implemented by the end of 2021.

Network Performance
The average number of minutes lost per consumer through pre-arranged shutdowns for maintenance and construction (Planned CML) increased from 12 to 18 minutes from the same period last year, primarily due to reduced work programmes in 2020 as a result of Covid-19 restrictions which resulted in fewer outages for customers. CML through distribution fault interruptions (Fault CML) decreased from 22 minutes in the prior period to 16 minutes in the current period.

Customer Service
The Utility Regulator sets overall and guaranteed standards for NIE Networks' performance. There were no defaults against the guaranteed standards for customer service activities during the period (2020 – none) and the overall standards were achieved with the exception of one standard in relation to obtaining customer meter readings which was impacted by Covid-19 restrictions. As a result of Covid-19 restrictions, the number of visits to customer properties to obtain a meter reading reduced, however additional interventions including increased use of online and mobile text messaging for customers to submit meter readings were introduced, resulting in obtaining a meter reading for 99.1% of customers against an overall target of 99.5%. There were no Stage 2 complaints taken up by the Consumer Council during the period (2020 – none).

Connections
The number of customer demand connections completed during the period increased compared with the prior period due to fewer Covid-19 related restrictions on work programmes in the six months to June 2021.

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. The latest statistics show that over 45% of annual electricity consumption in Northern Ireland for the twelve months to 30 June 2021 was generated from renewable sources. This has been supported through the connection of approximately 1.7GW of renewable capacity to the network by NIE Networks and with a further 0.3GW capacity committed to be connected, the total connected renewable capacity is expected to reach nearly 2.0GW by 2023.

NIE Networks has continued to participate in the Connections Innovation Working Group to consider and progress appropriate solutions which facilitate the connection of further Distributed Energy Resources in Northern Ireland.

Sustainability
The Company has reduced its non-network carbon emissions by 5.9% during the current period against the 2019 baseline year. The Company has achieved this through a range of measures including improving the energy efficiency of work locations and reducing business travel.

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 97.3% of waste recycled during the period.

Staffing
The total number of staff employed by the Company remained broadly consistent with the prior period. Absenteeism levels, including absences attributable to Covid-19, have also remained broadly consistent at 3.21% (2020: 3.11%).

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 2020 which is available at www.nienetworks.co.uk.

Related parties

Related party disclosures are given in note 9.

GROUP INCOME STATEMENT

	Note	Six months ended 30 June 2021 Unaudited £m	Six months ended 30 June 2020 Unaudited £m	Year ended 31 December 2020 Audited £m
Revenue	2	**146.5**	155.8	302.2
Operating costs		**(85.8)**	(87.9)	(172.5)
OPERATING PROFIT		**60.7**	67.9	129.7
Finance revenue		**-**	-	0.1
Finance costs		**(17.5)**	(17.5)	(35.3)
Net pension scheme interest		**(0.6)**	(1.0)	(1.8)
Net finance costs		**(18.1)**	(18.5)	(37.0)
PROFIT BEFORE TAX		**42.6**	49.4	92.7
Tax charge	3	**(45.0)**	(21.3)	(29.3)
(LOSS) / PROFIT FOR THE PERIOD / YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**(2.4)**	28.1	63.4

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2021 Unaudited £m	Six months ended 30 June 2020 Unaudited £m	Year ended 31 December 2020 Audited £m
(Loss) / profit for the financial period / year	**(2.4)**	28.1	63.4
Other comprehensive income / (expense):			
Re-measurement gains / (losses) on pension scheme assets and liabilities	**87.4**	(75.3)	(17.8)
Deferred tax (charge) / credit relating to components of other comprehensive income	**(21.8)**	14.3	3.4
Change in deferred tax rate relating to components of other comprehensive income	**11.0**	3.3	3.3
Net other comprehensive income / (expense) for the period / year	**76.6**	(57.7)	(11.1)
Total net comprehensive income / (expense) for the period / year	**74.2**	(29.6)	52.3

GROUP BALANCE SHEET

	Note	As at 30 June 2021 Unaudited £m	2020 Unaudited £m	As at 31 December 2020 Audited £m
Non-current assets				
Property, plant and equipment	4	**1,917.7**	1,862.2	1,888.3
Intangible assets	4	**17.4**	18.0	17.8
Right of use leased assets	4	**10.5**	12.0	11.7
Derivative financial assets	6	**530.0**	530.6	513.0
		2,475.6	2,422.8	2,430.8
Current assets				
Inventories		**17.2**	17.3	18.3
Trade and other receivables		**42.5**	47.9	60.6
Current tax asset		**2.0**	1.9	-
Derivative financial assets	6	**22.9**	17.0	19.0
Cash and cash equivalents		**19.8**	30.4	21.5
		104.4	114.5	119.4
TOTAL ASSETS		**2,580.0**	2,537.3	2,550.2
Current liabilities				
Trade and other payables		**69.0**	79.0	84.6
Current tax payable		**-**	2.8	2.7
Deferred income		**20.3**	19.2	21.3
Financial liabilities:				
Derivative financial liabilities	6	**22.9**	17.0	19.0
Lease financial liabilities	6, 7	**2.1**	2.7	2.4
Other financial liabilities	6, 7	**7.9**	7.9	16.4
Provisions		**2.9**	3.3	2.9
		125.1	131.9	149.3
Non-current liabilities				
Deferred tax liabilities		**126.7**	66.2	78.5
Deferred income		**529.5**	516.5	518.7
Financial liabilities:				
Derivative financial liabilities	6	**530.0**	530.6	513.0
Lease financial liabilities	6, 7	**8.6**	9.4	9.5
Other financial liabilities	6, 7	**747.8**	747.4	747.6
Provisions		**3.8**	3.7	3.7
Pension liability	8	**9.3**	170.5	104.9
		1,955.7	2,044.3	1,975.9
TOTAL LIABILITIES		**2,080.8**	2,176.2	2,125.2
NET ASSETS		**499.2**	361.1	425.0
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		**432.3**	294.2	358.1
TOTAL EQUITY		**499.2**	361.1	425.0

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

Paul Stapleton
Director
16 September 2021

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 January 2020	**36.4**	**24.4**	**6.1**	**323.8**	**390.7**
Profit for the year	-	-	-	63.4	63.4
Net other comprehensive expense for the year	-	-	-	(11.1)	(11.1)
Total net comprehensive income for the year	-	-	-	52.3	52.3
Dividends to the shareholder	-	-	-	(18.0)	(18.0)
At 1 January 2021	**36.4**	**24.4**	**6.1**	**358.1**	**425.0**
(Loss) for the period	-	-	-	(2.4)	(2.4)
Net other comprehensive income for the period	-	-	-	76.6	76.6
Total net comprehensive income for the period	-	-	-	74.2	74.2
At 30 June 2021	**36.4**	**24.4**	**6.1**	**432.3**	**499.2**

	Share Capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 January 2020	**36.4**	**24.4**	**6.1**	**323.8**	**390.7**
Profit for the period	-	-	-	28.1	28.1
Net other comprehensive expense for the period	-	-	-	(57.7)	(57.7)
Total net comprehensive expense for the period	-	-	-	(29.6)	(29.6)
At 30 June 2020	**36.4**	**24.4**	**6.1**	**294.2**	**361.1**

GROUP CASH FLOW STATEMENT

	Six months ended 30 June		Year ended 31 December
	2021	2020	2020
	Unaudited	Unaudited	Audited
	£m	£m	£m
Cash flows from operating activities			
(Loss) / profit for the period/year	**(2.4)**	28.1	63.4
Adjustments for:			
Tax charge	**45.0**	21.3	29.3
Net finance costs	**18.1**	18.5	37.0
Depreciation of property, plant and equipment	**40.4**	38.7	80.2
Depreciation of right of use leased assets	**1.6**	1.5	3.2
Release of customers' contributions and grants	**(9.8)**	(9.3)	(20.6)
Amortisation of intangible assets	**2.9**	2.6	5.2
Defined benefit pension charge less contributions paid	**(8.8)**	(9.7)	(18.6)
Net movement in provisions	**0.1**	(0.2)	(0.7)
Operating cash flows before movement in working capital	**87.1**	91.5	178.4
(Increase)/Decrease in working capital	**(4.4)**	10.5	(5.6)
Cash generated from operations	**82.7**	102.0	172.8
Interest received	**-**	-	0.1
Interest paid	**(25.6)**	(25.6)	(34.6)
Lease interest paid	**(0.2)**	(0.2)	(0.3)
Current taxes received/(paid)	**(6.3)**	(1.8)	(2.7)
Net cash flows from operating activities	**50.6**	74.4	135.3
Cash flows used in investing activities			
Purchase of property, plant and equipment	**(67.8)**	(55.4)	(118.8)
Customers' cash contributions	**19.6**	10.1	25.6
Purchase of intangible assets	**(2.5)**	(1.3)	(3.7)
Net cash flows used in investing activities	**(50.7)**	(46.6)	(96.9)
Cash flows (used in) / from financing activities			
Dividends paid to shareholder	**-**	-	(18.0)
Payments in respect of lease liabilities	**(1.6)**	(1.4)	(2.9)
Amounts received from group undertakings	**-**	8.0	8.0
Amounts repaid to group undertakings	**-**	(13.0)	(13.0)
Net cash flows (used in) financing activities	**(1.6)**	(6.4)	(25.9)
Net increase/(decrease) in cash and cash equivalents	**(1.7)**	21.4	12.5
Cash and cash equivalents at beginning of period / year	**21.5**	9.0	9.0
Cash and cash equivalents at end of period / year	**19.8**	30.4	21.5

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 FINANCIAL STATEMENTS

1. Basis of Preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Northern Ireland Electricity Networks Limited transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The condensed interim financial statements for the period ended 30 June 2021 have been prepared in accordance with the UK-adopted International Accounting Standard (IAS) 34 “Interim Financial Reporting” and the Disclosure Guidance and Transparency Rules sourcebook of the UK’s Financial Conduct Authority.

The condensed interim financial statements 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 financial statements have been prepared on the basis of the accounting policies set out in the financial statements for the year ended 31 December 2020.

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 at least 12 months from the date of approval of the condensed interim financial statements, along with potential downside sensitivities, the directors have a reasonable expectation that the Group will have adequate financial resources for the 12-month period. While the Covid-19 pandemic continues to impact both the Group and the wider economy, the directors have considered the possible financial impact on the Group’s financial position and 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 condensed interim financial statements.

The condensed interim financial statements 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 condensed interim financial statements for the period ended 30 June 2021 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006. The report of the auditors on the financial statements contained within the Group's annual report for the year ended 31 December 2020 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. This report should be read in conjunction with the annual report for the year ended 31 December 2020.

New and revised accounting standards, amendments and interpretations not yet adopted
No new standards, amendments or interpretations, effective for the first time during the period, have had a material impact on these condensed interim financial statements.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2021 and have not been applied in preparing these condensed interim financial statements. None of these are expected to have a significant effect on the financial statements of the Group.

2. Revenue

	Six months ended 30 June 2021 Unaudited £m	2020 Unaudited £m	Year ended 31 December 2020 Audited £m
Revenue:			
Sales revenue	**136.9**	146.7	282.0
Amortisation of customer contributions from deferred income	**9.6**	9.1	20.2
	146.5	155.8	302.2

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

3. Tax Charge

	Six months ended 30 June 2021 Unaudited £m	2020 Unaudited £m	Year ended 31 December 2020 Audited £m
Current tax charge			
UK corporation tax at 19.0% (2019 – 19.0%)	**7.6**	8.6	15.5
Adjustments in respect of prior periods	**-**	-	(0.2)
Total current tax	**7.6**	8.6	15.3
Deferred tax charge			
Origination and reversal of temporary differences in current period	**1.6**	1.0	2.4
Origination and reversal of temporary differences in prior period	**-**	-	(0.1)
Effect of increase in tax rate on opening liability	**35.8**	11.7	11.7
Total deferred tax charge	**37.4**	12.7	14.0
Total tax charge	**45.0**	21.3	29.3

4. Capital Additions

	Six months ended 30 June 2021 Unaudited £m	2020 Unaudited £m	Year ended 31 December 2020 Audited £m
Property, plant and equipment	**69.8**	51.6	119.2
Intangibles assets - computer software	**2.5**	1.2	3.7
Right of use leased assets	**0.7**	1.6	3.0
	73.0	54.4	125.9

Depreciation of £44.9m (30 June 2020 - £42.8m) was charged in the period.

5. Capital Commitments

At 30 June 2021 the Group had contracted future capital expenditure in respect of property, plant and equipment of £23.5m (June 2020 - £11.2m) and computer software assets of £3.4m (June 2020 - £3.5m).

6. Financial Instruments

An overview of financial instruments, other than cash, short-term deposits, prepayments and tax and social security costs held by the Group as at 30 June 2021 is as follows:

As at 30 June 2021	**Held at amortised cost Unaudited £m**	**Fair value profit or loss Unaudited £m**
Financial assets:		
Trade and other receivables	39.6	-
Interest rate swaps	-	22.9
Total current	**39.6**	**22.9**
Interest rate swaps	-	530.0
Total non-current	-	**530.0**
Total financial assets	**39.6**	**552.9**
Financial liabilities:		
Trade and other payables	64.8	-
Interest rate swaps	-	22.9
Lease liabilities	2.1	-
Interest bearing loans and borrowings	7.9	-
Total current	**74.8**	**22.9**
Interest rate swaps	-	530.0
Lease liabilities	8.6	-
Interest bearing loans and borrowings	747.8	-
Total non-current	**756.4**	**530.0**
Total financial liabilities	**831.2**	**552.9**

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.

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.

In 2011, following the novation of the swaps to NIE Networks, the Company entered into back-to-back RPI linked interest rate swap arrangements with ESBNI Limited, the immediate parent undertaking of the Company, which had identical matching terms to the swaps. The back-to-back matching swaps with ESBNI Limited ensures that there is no net effect on the financial statements of the Company and that any risk to financial exposure is borne by ESBNI Limited.

During 2021 the Company and its counterparty banks agreed a further restructuring of the swaps, including amendments to certain critical terms. These changes included an extension of the mandatory break period from 2022 to 2025 for the swaps maturing in 2036 and the removal of mandatory breaks for the swaps maturing in 2026 to 2031. It also included amendments to the fixed interest rate element of the swaps and a change to the number of swap counterparties. Future accretion payments are now scheduled to occur every five years from December 2023, with remaining accretion paid at maturity. In line with the restructuring with the counterparty banks, the Company's back-to-back matching swaps with ESBNI Limited were also restructured to ensure that there is no effect on the financial statements of the Company and that any risk to financial exposure is borne by ESBNI Limited.

6. Financial Instruments (continued)

Negative fair value movements (including interest and finance charges) of £32.8m arose on the swaps in the six months ended 30 June 2021 (June 2020: negative fair value movements of £37.0m) and were recognised within finance costs in the income statement, as hedge accounting was not available. Given the back-to-back arrangements with ESBNI Limited, there is a matching positive fair value movement of £32.8m in the period (June 2020: matching positive fair value movements of £37.0m).

In the six months to June 2021, the Company made swap interest payments of £11.8m (2020: £6.9m). Due to the back-to-back arrangements with ESBNI Limited, the Company had matching swap interest receipts of £11.8m (2020: £6.9m). No net swap interest cost arises on these transactions and therefore they have been netted in finance costs.

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 30 June 2021 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 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
Cash at bank and in hand	**19.8**	30.4	21.5
Debt due before 1 year:			
Interest payable on £350m bond	**(5.9)**	(5.9)	(1.6)
Interest payable on £400m bond	**(2.0)**	(2.0)	(14.8)
Interest payable to parent undertaking	**(0.1)**	(0.1)	(0.1)
Lease liability	**(2.1)**	(2.7)	(2.4)
Amounts owed to parent undertaking	**-**	-	-
	(10.1)	(10.7)	(18.9)
Debt due after 1 year:			
£350m bond	**(348.8)**	(348.5)	(348.6)
£400m bond	**(399.0)**	(398.9)	(399.0)
Lease liability	**(8.6)**	(9.4)	(9.5)
	(756.4)	(756.8)	(757.1)
Total net debt	**(746.7)**	(737.1)	(754.5)

8. Pension Commitments

Most employees of the Group are members of the 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 8% 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.

	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
Market value of assets	**1,219.1**	1,143.3	1,204.0
Actuarial value of liabilities	**(1,228.4)**	(1,313.8)	(1,308.9)
Net pension liability	**(9.3)**	(170.5)	(104.9)

Changes in the market value of assets

	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
Market value of assets at beginning of the period / year	**1,204.0**	1,127.0	1,127.0
Interest income on scheme assets	**7.8**	11.1	22.1
Contributions from employer	**12.5**	12.4	25.1
Contributions from scheme members	**0.1**	0.1	0.3
Benefits paid	**(30.9)**	(36.4)	(66.5)
Administration expenses paid	**(0.6)**	(1.4)	(2.2)
Re-measurement gains on scheme assets	**26.2**	30.5	98.2
Market value of assets at end of the period / year	**1,219.1**	1,143.3	1,204.0

Changes in the actuarial value of liabilities

	30 June 2021 Unaudited £m	30 June 2020 Unaudited £m	31 December 2020 Audited £m
Actuarial value of liabilities at beginning of the period / year	**1,308.9**	1,230.9	1,230.9
Interest expense on pension liability	**8.4**	12.1	23.9
Current service cost	**3.0**	2.8	5.4
Curtailment costs	**0.1**	0.1	0.2
Past service credit	**-**	(1.6)	(1.3)
Contributions from scheme members	**0.1**	0.1	0.3
Benefits paid	**(30.9)**	(36.4)	(66.5)
Effects of changes in demographic assumptions	**-**	-	5.1
Effect of changes in financial assumptions	**(61.2)**	105.8	136.1
Effect of experience adjustments	**-**	-	(25.2)
Actuarial value of liabilities at end of the period / year	**1,228.4**	1,313.8	1,308.9

9. Related Party Transactions

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 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, DOA A995.

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

	Interest charges Unaudited £m	Revenue from related party Unaudited £m	Charges from related party Unaudited £m	Amounts owed by related party at period end Unaudited £m	Amounts owed to related party at period end Unaudited £m
Six months ended 30 June 2021					
ESB	**(0.2)**	**-**	**-**	**-**	**(0.1)**
ESB subsidiaries	**-**	**22.9**	**(1.3)**	**3.1**	**(3.2)**
	(0.2)	**22.9**	**(1.3)**	**3.1**	**(3.3)**
Six months ended 30 June 2020					
ESB	(0.2)	-	-	-	(0.1)
ESB subsidiaries	-	17.4	(1.3)	2.8	(2.9)
	(0.2)	17.4	(1.3)	2.8	(3.0)

During the period ended 30 June 2021, the Group contributed £16.3m (2020 - £16.0m) to the Northern Ireland Electricity Pension Scheme in respect of Focus and Options employer contributions, including an element of deficit repair contributions in respect of Focus.

10. Contingent Liabilities

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

(i) the condensed interim financial statements 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 loss of the Group for the six months to 30 June 2021; 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

16 September 2021

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