Northern Ireland Electricity Networks

UNAUDITED INTERIM REPORT & CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2023

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INTERIM MANAGEMENT REPORT six months to 30 June 2023

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 2023.

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 2022.

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), Derek Hynes (Managing Director) and Gordon Parkes (Executive Director, People & Culture).

NIE Networks is the owner of the electricity transmission and distribution networks in Northern Ireland and is the electricity distribution network operator, serving around 910,000 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 was initially set to apply for the period to 31 March 2024. The Utility Regulator determined in March 2023 to extend the duration of NIE Networks' current price control (RP6) by one year, moving the end date of the RP6 price control from 31 March 2024 to 31 March 2025. Consequently, the RP7 price control period will be deferred to commence on 1 April 2025 and run to 31 March 2031.

The RP6 price control set ex-ante allowances of £902 million for capital investment and £590 million in respect of operating costs (2022-23 prices). The allowances in respect of major transmission load growth projects are considered on a case-by-case basis, for example, the Coolkeeragh to Magherafelt overhead line refurbishment. The allowances are 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 3.27% plus inflation (weighted average cost of capital based on pre-tax cost of debt and post-tax cost of equity) has been adjusted to reflect the cost of new debt raised in RP6. This mechanism was introduced at the start of RP6 and aligns the cost of debt component of the return more closely with prevailing market conditions at the time of drawdown of new debt.

NIE Networks submitted its RP7 business plan to the Utility Regulator in March 2023. The Utility Regulator is now reviewing the business plan and is expected to publish its Final Determination in October 2024.

Financial results

Operating Profit

The Group's operating profit for the six-month period increased from £38.8m to £42.6m compared to the same period last year. Group revenue of £143.6m has increased by £14.0m primarily reflecting increases in Transmission Service Charge (TSC) income (£3.4m), Connections income (£2.5m) and an £11.4m 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 coupled with the impact of inflation. This is offset by a £4.1m decrease in revenues associated with the Public Service Obligation (PSO). Group operating costs of £101.0m have increased by £10.2m, predominantly due to increased staff costs which is reflective of increased recruitment over the last 12 months, as outlined on page 5, and the impact of inflation on the Group's cost base.

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 £14.7m (six months to 30 June 2022: net PSO expense £10.4m).

Tax Charge

In March 2021, the UK Government announced that future corporation tax rates would increase from the rate at that time of 19% to 25%, effective from 1 April 2023. The effect of the increase in the expected future corporation tax rate resulted in a one-off charge to the Income Statement of £5.7m for the period ended 30 June 2022. As there were no further developments or changes in the tax rate, there were no one-off charges in the current period.

FFO Interest Cover

The ratio of Funds from Operations (FFO) to interest paid during the period remained broadly consistent with the prior period at 2.8 times (six months to 30 June 2022: 2.7 times).

Net Assets

The Group's net assets of £547.1m have decreased by £1.6m in the six months to 30 June 2023 reflecting profit after tax of £15.2m less re-measurement losses (net of tax) on the pension scheme surplus of £16.8m.

Cash Flow

Cash and cash equivalents increased by £16.0m in the period reflecting net cash inflows from operating activities of £48.0m, investing activity outflows of £30.6m reflecting the Group's continued investment in the network and financing activity outflows of £1.4m. The Group's Revolving Credit Facility (RCF) remained undrawn during the period.

Going Concern

As stated in note 1 to the condensed interim financial statements, the directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed interim financial statements.

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 2023**	Six months ended 30 June 2022	Year ended 31 December 2022
Health, Safety and Wellbeing:			
Lost time incidents *(number of)*	**2**	None	2
Network Performance:			
Customer Minutes Lost (CML)			
• Planned CML *(minutes)*	**17**	17	38
• Fault CML *(minutes)*	**21**	20	38
Customer Service:			
Overall standards – failures *(number of)*	**1**	1	1
Guaranteed standards – defaults *(number of)*	**24**	25	52
Stage 2 complaints to the Consumer Council	**-**	1	3
Connections:			
Customer demand connections completed including non-recoverable alterations *(number of)*	**2,212**	1,942	3,690
Sustainability:			
Reduction in non-network carbon emissions	**4.3%**	10.5%	10.5%
Waste recycling rate	**97.6%**	97.0%	97.1%
Staffing:			
Headcount	**1,432**	1,318	1,367
Absenteeism	**2.6%**	3.3%	3.4%

Health, Safety and Wellbeing
Ensuring the health, safety and wellbeing of employees, contractors and the general public continues to be the focus of our safety value within NIE Networks. Our ambition is to provide a zero-harm working environment where risks to health, safety and wellbeing are assessed and controlled. While NIE Networks will continue to strive towards our ambition of zero lost time incidents, there were two lost time incidents during the period (2022 – none). Both lost time incidents were during low risk activities (not inherent risk) and each incident has been investigated internally.

The Company's "Safer Together – Our Pathway to Zero Harm" journey is a continuing priority for NIE Networks and is 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.

The Safer Together journey continues to focus our commitment to our safety value, through promoting an open and proactive safety culture with the full involvement of all. This has been reinforced through strong and visible leadership and the implementation of a series of continued safety improvements through 2022 and 2023.

Developing our culture will continue to be a focus throughout 2023 with the expansion of safety leadership coaching, additional full-time coaching roles and promotion of employee forums where views can be expressed, solutions co-developed and implemented. Our goal is to ensure that we create an environment where everyone is treated fairly, respectfully and that our people feel safe to raise any concerns that we can all learn from.

Network Performance
The average number of minutes lost per consumer through pre-arranged shutdowns for maintenance and construction (Planned CML) was consistent with the same period last year at 17 minutes. CML through distribution fault interruptions (Fault CML) increased slightly from 20 to 21 minutes, which has been influenced by weather conditions and storms in the first half of 2023 which had an increased impact on the network.

Customer Service
The Utility Regulator sets overall and guaranteed standards for NIE Networks' performance. The majority of standards apply to services provided, for example, the timely restoration of customers' supplies following an interruption, meter readings in the period and prescribed times for responding to customers' voltage complaints. There were 24 defaults against the guaranteed standards for customer service activities during the first six months of 2023 (2022: 25). These defaults related to the late provision of quotations for new connections, time taken to restore electricity supplies and missed appointments.

The overall standards were achieved with the exception of one standard (2022: one) in relation to obtaining customer meter readings. Given the prevalence of keypad meters and changing consumer behaviours post the Covid-19 pandemic, our experience is that this is a difficult standard to achieve; we are therefore in discussions with the Utility Regulator about how this can best be applied in the future.

There have been no Stage 2 complaints taken up by the Consumer Council during the period (2022: one).

Connections
The number of customer demand connections completed during the six months to June 2023 increased compared with the same period in the previous year, partly reflecting an improvement in materials availability after the impact of global supply chain issues during 2022.

Significant elements of the market for new connections have been open to competition since March 2018. In April 2023 this was extended further whereby Independent Connection Providers (ICPs) were granted the ability to apply to become accredited to deliver final connections at low voltage levels on the distribution network. To date there has been limited uptake from ICPs within the contestability market however NIE Networks will continue to monitor activity and ensure the Northern Ireland market remains open to competition.

The latest statistics from the Department for the Economy show that nearly 46% of electricity consumption within Northern Ireland was generated from renewable sources for the twelve months to 30 June 2023, a decrease of 1.2% from the previous 12 month period. This renewable generation has been supported by the connection of approximately 1.8GW of renewable capacity to the network by NIE Networks to date, with a further 0.6GW of capacity committed to be connected within the next few years. Further applications for renewable generation connections to the network continue to be received by NIE Networks, which will support moving towards the new target of 80% of electricity consumption from renewable sources by 2030, as legislated for in the Climate Change Act (Northern Ireland) 2022.

Sustainability
The Company has reduced its non-network scope 1 and 2 carbon emissions by 4.3% 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, however there has also been a number of new diesel vehicles added to the fleet to help deliver our growing work programme which has increased fuel consumption. This additional consumption from fleet, together with increased air travel to facilitate supply chain improvements as well as the seasonality of gas and electricity consumption, has resulted in slower improvements in emissions.

The recycling rate for all hazardous and non-hazardous waste (excluding excavated material from roads and footpaths, civil projects excavation and asbestos removal) continued at a high level with 97.6% of waste recycled during the period.

Staffing
The total number of staff employed by the Company has increased steadily over the last 12 months to 1,432 employees (June 2022: 1,318). This has been as a result of continued growth to ensure we are resourcing the overall business to enable NIE Networks to continue to deliver a high-quality service for its customers, deliver the outputs required in the RP6 price control within the allowances set, and be in a position to deliver the transformational change (outlined in our RP7 Business Plan submission) that is required in order to achieve Northern Ireland's net zero targets.

Absenteeism levels, at 2.6%, have improved during the period (June 2022: 3.3%). The Company continues to offer a significant range of support services to its employees.

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 2022 which is available at www.nienetworks.co.uk.

Related parties

Related party disclosures are given in note 9.

CONDENSED GROUP INCOME STATEMENT

	Note	Six months ended 30 June 2023 Unaudited £m	Six months ended 30 June 2022 Unaudited £m	Year ended 31 December 2022 Audited £m
Revenue	2	**143.6**	129.6	302.5
Operating costs		**(101.0)**	(90.8)	(185.4)
OPERATING PROFIT		**42.6**	38.8	117.1
Finance revenue		**5.3**	0.1	1.8
Finance costs		**(29.1)**	(17.7)	(39.4)
Net pension scheme interest		**1.5**	(0.1)	0.1
Net finance costs		**(22.3)**	(17.7)	(37.5)
PROFIT BEFORE TAX		**20.3**	21.1	79.6
Tax charge	3	**(5.1)**	(10.3)	(22.3)
PROFIT FOR THE PERIOD / YEAR		**15.2**	10.8	57.3

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2023 Unaudited £m	Six months ended 30 June 2022 Unaudited £m	Year ended 31 December 2022 Audited £m
Profit for the financial period / year	**15.2**	10.8	57.3
Other comprehensive (expense)/income:			
Items not to be reclassified to profit or loss in subsequent periods:			
Re-measurement (loss)/gains on pension scheme assets and liabilities	**(22.4)**	101.7	41.5
Deferred tax credit/(charge) relating to components of other comprehensive income	**5.6**	(25.4)	(10.4)
Change in deferred tax rate relating to components of other comprehensive income	**-**	6.1	6.1
Net other comprehensive (expense)/income for the period / year	**(16.8)**	82.4	37.2
Total net comprehensive (expense)/income for the period / year	**(1.6)**	93.2	94.5

CONDENSED GROUP BALANCE SHEET

	Note	As at 30 June 2023 Unaudited £m	2022 Unaudited £m	As at 31 December 2022 Audited £m
Non-current assets				
Property, plant and equipment	4	**2,140.1**	2,009.5	2,090.9
Intangible assets	4	**20.2**	18.7	20.1
Right of use leased assets	4	**17.3**	9.8	15.9
Derivative financial assets	6	**275.1**	527.7	285.9
Defined benefit pension scheme surplus	8	**43.8**	103.4	52.8
		2,496.5	2,669.1	2,465.6
Current assets				
Short-term investments		**122.5**	-	170.0
Inventories		**18.3**	15.9	17.5
Trade and other receivables		**53.6**	38.8	62.3
Current tax asset		**-**	6.2	-
Derivative financial assets	6	**220.6**	12.4	212.3
Cash and cash equivalents		**93.9**	8.2	77.9
		508.9	81.5	540.0
TOTAL ASSETS		**3,005.4**	2,750.6	3,005.6
Current liabilities				
Trade and other payables		**77.5**	78.8	77.6
Current tax payable		**-**	-	-
Deferred income		**21.8**	20.7	21.4
Financial liabilities:				
Derivative financial liabilities	6	**220.6**	12.4	212.3
Lease financial liabilities	6, 7	**2.8**	2.1	2.8
Other financial liabilities	6, 7	**21.5**	62.9	19.8
Provisions		**1.9**	2.0	2.5
		346.1	178.9	336.4
Non-current liabilities				
Deferred tax liabilities		**139.6**	153.8	142.3
Deferred income		**554.0**	545.5	549.9
Financial liabilities:				
Derivative financial liabilities	6	**275.1**	527.7	285.9
Lease financial liabilities	6, 7	**15.4**	8.1	13.7
Other financial liabilities	6, 7	**1,094.8**	748.3	1,094.5
Provisions		**33.3**	4.3	34.2
		2,112.2	1,987.7	2,120.5
TOTAL LIABILITIES		**2,458.3**	2,166.6	2,456.9
NET ASSETS		**547.1**	584.0	548.7
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
Retained earnings		**480.2**	517.1	481.8
TOTAL EQUITY		**547.1**	584.0	548.7

CONDENSED GROUP BALANCE SHEET

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

Derek Hynes
Director

19 September 2023

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 January 2022	**36.4**	**24.4**	**6.1**	**423.9**	**490.8**
Profit for the year	-	-	-	57.3	**57.3**
Net other comprehensive income for the year	-	-	-	37.2	**37.2**
Total net comprehensive income for the year	-	-	-	94.5	**94.5**
Dividends to the shareholder	-	-	-	(36.6)	**(36.6)**
At 1 January 2023	**36.4**	**24.4**	**6.1**	**481.8**	**548.7**
Profit for the period	-	-	-	15.2	**15.2**
Net other comprehensive expense for the period	-	-	-	(16.8)	**(16.8)**
Total net comprehensive expense for the period	-	-	-	(1.6)	**(1.6)**
At 30 June 2023	**36.4**	**24.4**	**6.1**	**480.2**	**547.1**

	Share Capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 January 2022	**36.4**	**24.4**	**6.1**	**423.9**	**490.8**
Profit for the period	-	-	-	10.8	10.8
Net other comprehensive income for the period	-	-	-	82.4	82.4
Total net comprehensive income for the period	-	-	-	93.2	93.2
At 30 June 2022	**36.4**	**24.4**	**6.1**	**517.1**	**584.0**

CONDENSED GROUP CASH FLOW STATEMENT

	Six months ended 30 June 2023 Unaudited £m	2022 Unaudited £m	Year ended 31 December 2022 Audited £m
Cash flows from operating activities			
Profit for the period/year	**15.2**	10.8	**57.3**
Adjustments for:			
Tax charge	**5.1**	10.3	**22.3**
Net finance costs	**22.3**	17.7	**37.5**
Depreciation of property, plant and equipment	**44.7**	42.2	**85.2**
Depreciation of right of use leased assets	**1.7**	1.5	**3.2**
Release of customers' contributions and grants	**(10.4)**	(10.1)	**(20.5)**
Amortisation of intangible assets	**2.3**	3.3	**5.3**
Defined benefit pension charge less contributions paid	**(12.0)**	(8.9)	**(18.3)**
Net movement in provisions	**(2.6)**	(0.6)	**(1.1)**
Operating cash flows before movement in working capital	**66.3**	66.2	**170.9**
Decrease/(Increase) in working capital	**2.3**	15.1	**(23.6)**
Cash generated from operations	**68.6**	81.3	**147.3**
Interest received	**5.3**	0.1	**0.8**
Interest paid	**(25.6)**	(25.9)	**(35.3)**
Lease interest paid	**(0.3)**	(0.1)	**(0.3)**
Current taxes received/(paid)	**-**	-	**9.0**
Net cash flows from operating activities	**48.0**	55.4	**121.5**
Cash flows used in investing activities			
Purchase of property, plant and equipment	**(90.6)**	(85.8)	**(177.4)**
Customers' cash contributions	**14.9**	17.4	**33.0**
Purchase of intangible assets	**(2.4)**	(3.1)	**(6.5)**
Short-term investments	**47.5**	-	**(170.0)**
Net cash flows used in investing activities	**(30.6)**	(71.5)	**(320.9)**
Cash flows (used in) / generated from financing activities			
Dividends paid to shareholder	**-**	-	**(36.6)**
Payments in respect of lease liabilities	**(1.4)**	(1.5)	**(2.9)**
Amounts received from group undertakings	**-**	25.0	**53.0**
Amounts repaid to group undertakings	**-**	(10.0)	**(93.0)**
Net proceeds of borrowings	**-**	-	**346.0**
Net cash flows (used in) / generated from financing activities	**(1.4)**	13.5	**266.5**
Net increase/(decrease) in cash and cash equivalents	**16.0**	(2.6)	**67.1**
Cash and cash equivalents at beginning of period / year	**77.9**	10.8	**10.8**
Cash and cash equivalents at end of period / year	**93.9**	8.2	**77.9**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, short-term bank deposits with maturities of less than three months and bank overdrafts. Short-term investments, while predominantly in the form of bank deposits, are excluded from cash and cash equivalents as their maturities are in excess of three months.

1. Basis of Preparation

The condensed interim financial statements for the period ended 30 June 2023 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 2022.

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 the assessment of plausible potential downside sensitivities, the directors have a reasonable expectation that the Group will have adequate financial resources for the 12-month period and 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 2023 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 2022 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 2022.

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 amendments to standards and interpretations are effective for annual periods beginning after 1 January 2023 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 2023 Unaudited £m	Six months ended 30 June 2022 Unaudited £m	Year ended 31 December 2022 Audited £m
Revenue:			
Sales revenue	**133.4**	119.7	282.4
Amortisation of customer contributions from deferred income	**10.2**	9.9	20.1
	143.6	129.6	302.5

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 2023 Unaudited £m	Six months ended 30 June 2022 Unaudited £m	Year ended 31 December 2022 Audited £m
Current tax charge			
UK corporation tax at 22% (2022 – 19.0%)	**2.2**	3.3	11.8
Total current tax	**2.2**	3.3	11.8
Deferred tax charge			
Origination and reversal of temporary differences in current period	**2.9**	1.3	4.8
Effect of increase in tax rate on opening liability	**-**	5.7	5.7
Total deferred tax charge	**2.9**	7.0	10.5
Total tax charge	**5.1**	10.3	22.3

4. Capital Additions

	Six months ended 30 June 2023 Unaudited £m	Six months ended 30 June 2022 Unaudited £m	Year ended 31 December 2022 Audited £m
Property, plant and equipment	**96.6**	85.8	211.0
Intangibles assets - computer software	**2.4**	3.1	6.5
Right of use leased assets	**3.1**	1.3	9.1
	102.1	90.2	226.6

Depreciation and amortisation of £48.7m (30 June 2022 - £47.0m) was charged in the period.

5. Capital Commitments

At 30 June 2023, the Group had contracted future capital expenditure in respect of property, plant and equipment of £40.3m (June 2022 - £38.3m) and computer software assets of £4.5m (June 2022 - £4.7m).

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 2023 is as follows:

As at 30 June 2023 **Financial assets:**	**Held at amortised cost Unaudited £m**	**Fair value profit or loss Unaudited £m**
Trade and other receivables	47.1	-
Interest rate swaps	-	220.6
Total current	**47.1**	**220.6**
Interest rate swaps	-	275.1
Total non-current	-	275.1
Total financial assets	**47.1**	**495.7**
Financial liabilities:		
Trade and other payables	73.2	-
Interest rate swaps	-	220.6
Lease liabilities	2.8	-
Interest bearing loans and borrowings	21.5	-
Total current	**97.5**	**220.6**
Interest rate swaps	-	275.1
Lease liabilities	15.4	-
Interest bearing loans and borrowings	1,094.8	-
Total non-current	**1,110.2**	**275.1**
Total financial liabilities	**1,207.7**	**495.7**

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 £0.4m arose on the swaps in the six months ended 30 June 2023 (June 2022: positive fair value movements of £53.3m) 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 £0.4m in the period (June 2022: matching negative fair value movements of £53.3m).

In the six months to June 2023, the Company made swap interest payments of £2.9m (2022: £11.7m). Due to the back-to-back arrangements with ESBNI Limited, the Company had matching swap interest receipts of £2.9m (2022: £11.7m). 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 2023 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 2023 Unaudited £m	30 June 2022 Unaudited £m	31 December 2022 Audited £m
Cash at bank and in hand	**93.9**	8.2	77.9
Debt due before 1 year:			
Interest payable on £350m bond (2.500%)	**(5.9)**	(5.9)	(1.6)
Interest payable on £400m bond (6.375%)	**(2.0)**	(2.0)	(14.8)
Interest payable on £350m bond (5.875/%)	**(13.6)**	-	(3.4)
Interest payable to parent undertaking	**-**	(0.1)	(0.1)
Lease liability	**(2.8)**	(2.1)	(2.8)
Amounts owed to parent undertaking	**-**	(55.0)	-
	(24.3)	(65.1)	(22.7)
Debt due after 1 year:			
£350m bond (2.500%)	**(349.3)**	(349.1)	(349.2)
£400m bond (6.375%)	**(399.4)**	(399.2)	(399.3)
£350m bond (5.875%)	**(346.1)**	-	(346.0)
Lease liability	**(15.4)**	(8.1)	(13.8)
	(1,110.2)	(756.4)	(1,108.3)
Total net debt	**(1,040.6)**	(813.3)	(1,053.1)

The tables above exclude short-term investments of £122.5m (June 2022: £Nil; December 2022: £170.0m) as they have maturity dates of between three and six months and do not meet the definition of cash and cash equivalents.

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.

The Company has recognised an accounting surplus on the 'Focus' defined benefit pension scheme in line with the most recent IAS 19 valuation on the basis of the Company's assessment that it has the right to any remaining surplus on the eventual winding up of the pension scheme following gradual settlement of the scheme's liabilities.

In making this judgement, the Company is of the view that no other party has the unilateral right to wind-up the scheme or amend the liabilities of the scheme.

Notwithstanding the current IAS 19 surplus, the Company expects to continue to contribute deficit contributions in line with the agreement arising from the most recent funding valuation.

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 2023 Unaudited £m	30 June 2022 Unaudited £m	31 December 2022 Audited £m
Market value of assets	**868.6**	1,039.0	899.1
Actuarial value of liabilities	**(824.8)**	(935.6)	(846.3)
Net pension asset	**43.8**	103.4	52.8

Changes in the market value of assets

	30 June 2023 Unaudited £m	30 June 2022 Unaudited £m	31 December 2022 Audited £m
Market value of assets at beginning of the period / year	**899.1**	1,261.8	1,261.8
Interest income on scheme assets	**22.3**	11.3	22.4
Contributions from employer	**14.4**	13.1	26.4
Contributions from scheme members	**0.1**	0.1	0.2
Benefits paid	**(29.3)**	(32.0)	(64.5)
Administration expenses paid	**(0.8)**	(0.7)	(1.6)
Re-measurement gains on scheme assets	**(37.2)**	(214.6)	(345.6)
Market value of assets at end of the period / year	**868.6**	1,039.0	899.1

8. Pension Commitments (continued)

Changes in the actuarial value of liabilities

	30 June 2023 Unaudited £m	30 June 2022 Unaudited £m	31 December 2022 Audited £m
Actuarial value of liabilities at beginning of the period / year	**846.3**	1,268.9	1,268.9
Interest expense on pension liability	**20.8**	11.3	22.3
Current service cost	**1.6**	3.5	6.2
Curtailment costs	**0.1**	0.1	0.3
Contributions from scheme members	**0.1**	0.1	0.2
Benefits paid	**(29.3)**	(32.0)	(64.5)
Effects of changes in demographic assumptions	**-**	-	(8.8)
Effect of changes in financial assumptions	**(28.6)**	(322.8)	(421.6)
Effect of experience adjustments	**13.8**	6.5	43.3
Actuarial value of liabilities at end of the period / year	**824.8**	935.6	846.3

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 27 Fitzwilliam Street Lower, Dublin 2, DO2 KT92, Ireland.

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 2023					
ESB	**(0.1)**	**-**	**-**	**-**	**-**
ESB subsidiaries	**-**	**22.5**	**(1.9)**	**9.7**	**(0.1)**
	(0.1)	**22.5**	**(1.9)**	**9.7**	**(0.1)**
Six months ended 30 June 2022					
ESB	(0.3)	-	-	-	(55.1)
ESB subsidiaries	-	21.5	(1.9)	2.7	(3.3)
	(0.3)	21.5	(1.9)	2.7	(58.4)

During the period ended 30 June 2023, the Group contributed £20.3m (2022 - £17.5m) 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.

11. Events since the Balance Sheet Date

There are no post balance sheet events which the directors believe required adjustment to, or disclosure in, the financial statements.

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 profit of the Group for the six months to 30 June 2023; 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

Derek Hynes
Director

19 September 2023

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