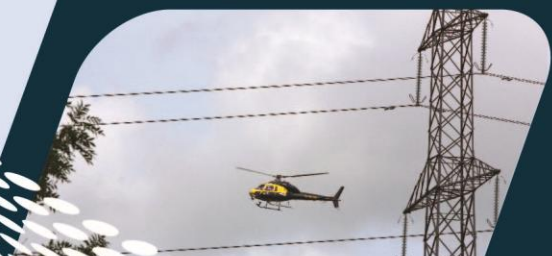
Northern Ireland Electricity

Unaudited Interim Report & Accounts

Six months ended 30 June 2014



nie.co.uk

INTERIM MANAGEMENT REPORT

The directors of Northern Ireland Electricity Limited (NIE) present their unaudited interim report and accounts for the six months ended 30 June 2014.

The interim accounts 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 interim accounts consolidate the results of NIE and its subsidiary undertakings, NIE Networks Services Limited and NIE Finance PLC (the Group). NIE Networks Services Limited, which became a wholly owned subsidiary of NIE in October 2013, provides electrical infrastructure construction and refurbishment and other managed services to NIE and NIE Finance PLC is the issuer of listed bonds on behalf of NIE. NIE is part of the ESB Group.

The results for the period ended 30 June 2014 show a profit of £24.8m (2013 - £23.8m). No dividends were paid during the period (2013 - £Nil).

Operating Environment

The Group's principal activities are the construction and maintenance of the transmission and distribution networks in Northern Ireland and the operation of the distribution network. Responsibility for transmission network planning was transferred to SONI Limited, the transmission system operator in Northern Ireland, with effect from 1 May 2014 in accordance with the European Commission decision in respect of the transmission arrangements in Northern Ireland under the IME3 Directive.

NIE derives its revenue principally through charges for use of the distribution system and Public Service Obligation (PSO) charges levied on electricity suppliers and charges for transmission services (mainly for use of the transmission system) levied on SONI.

NIE is regulated by the Northern Ireland Authority for Utility Regulation (the Utility Regulator) and the Department of Enterprise Trade and Investment (DETI). Under its Transmission and Distribution licences NIE is required to develop, maintain, and in the case of the distribution system, operate an efficient, co-ordinated and economical system of:

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

The transmission and distribution networks comprise a number of interconnected networks of overhead lines and underground cables which are used for the transfer of electricity to 846,000 consumers via a number of substations. During the period an estimated 3.9TWh of electricity was distributed to consumers. There are 2,200km of transmission circuits, approximately 45,000km of distribution circuits and approximately 290 major substations, including 30 at large wind farm sites. NIE's transmission system is connected to that of the Republic of Ireland (RoI) through a 275kV interconnector and to that in Scotland via the Moyle Interconnector. There are also two standby 110kV connections to RoI.

Price Control

NIE is subject to periodic reviews in respect of the prices it may charge for use of the transmission and distribution networks in Northern Ireland.

The Regulatory Period 4 (RP4) price control was NIE's fourth price control since privatisation and applied for the period from 1 April 2007 to 31 March 2012. NIE's price control in respect of the fifth regulatory period commencing on 1 April 2012 (RP5) was determined in April 2014 following a referral to the Competition and Markets Authority (CMA - previously known as the Competition Commission). The Utility Regulator is now in the process of drafting the formal licence modifications to implement the CMA's determination.

A key aspect of the CMA's determination is the closer alignment of the regulatory framework and reporting arrangements with those applied by Ofgem (the GB regulator). NIE fully supports this change which should facilitate future price control reviews. The price control will apply for the period from 1 April 2012 to

30 September 2017 with an allowed real rate of return of 4.1% (weighted average cost of capital based on pre tax cost of debt and post tax cost of equity).

The price control includes up-front allowances of £612m and £335m in respect of capital and operating expenditures respectively (June 2014 price base) with the up-front allowances being adjusted to reflect 50% of the difference between NIE's actual costs and the allowances. This is equivalent to the capital and operating cost allowances being calculated as the average of the up-front allowances and NIE's actual costs.

The CMA substantially allowed the components of the investment plan proposed by NIE, the main exceptions being the proposals for improving network performance and increasing the resilience of the 11kV rural network to ice accretion events. NIE's emphasis during RP5 will be on the delivery of specified outputs particularly regarding asset replacement expenditure.

The price control also provides for additional capital expenditure relating to large transmission projects which may be approved by the Utility Regulator on a case-by-case basis.

The CMA adopted Ofgem's classification of costs into "direct" costs and "indirect" costs for the purpose of setting the capital and operating expenditure allowances. New arrangements for annual reporting of costs will follow this classification based on Ofgem's RIGs (Regulatory Instructions and Guidance). NIE expects this will be of benefit by facilitating future benchmarking of its costs versus the GB network operators.

In respect of pensions, the price control adopts the Ofgem Pension RIGs methodology whereby the deficit is split into historical and incremental elements with the cut-off date for the historic deficit being 31 March 2012. The price control allowance for the historic deficit matches the deficit repayment profile agreed with the pension scheme trustees, subject to an annual disallowance of £4.6m (June 2014 price base) in respect of costs associated with early retirement schemes incurred by NIE between 1997 and 2003. The price control makes no allowance for any deficit costs which might arise in respect of pensionable service post 31 March 2012. It is expected that these costs, in conjunction with ongoing service costs, will be subject to benchmarking with the GB network operators in future price controls.

Financial Review

Financial KPIs

The directors have determined that the Group's financial key performance indicators (KPIs) are Group pro-forma operating profit and pro-forma Funds From Operations (FFO) interest cover based on regulated entitlement determined by NIE's price control.

As explained in the Price control section above, NIE is subject to a price control which sets out the prices it may charge and the revenue it may earn. If the amount of revenue recovered in any one year exceeds or falls short of the amount allowed by the price control formula a regulatory correction factor operates in the following year to give back any surplus with interest, or to recover any deficit with interest, as appropriate. A surplus is referred to as an over-recovery and a deficit as an under-recovery.

The directors consider that pro-forma revenue and operating profits (based on regulated entitlement as allowed by NIE's price control) give a more meaningful measure of performance than revenue and operating profits reported in the Group Income Statement.

The calculation of Group pro-forma operating profit is shown below:

	Six months ended 30 June		**Year ended 31 December**
	2014 Unaudited £m	2013 Unaudited £m	**2013 Unaudited £m**
Group operating profit	**51.8**	55.9	**112.4**
Add / (deduct) regulatory correction factor	**4.1**	(4.4)	**(6.3)**
Group pro-forma operating profit	**55.9**	51.5	**106.1**

Pending implementation of the formal RP5 licence modifications, the regulated entitlement for the six month periods to 30 June 2014 and 30 June 2013 and for the year to 31 December 2013 is based on management's reasonable estimate of NIE's entitlement under the CMA's determination. On this basis the Group's pro-forma operating profit increased from £51.5m in the six months to 30 June 2013 to £55.9m, mainly reflecting growth in the Regulatory Asset Base (RAB) due to capital expenditure and inflation, lower storm repair and price review consultancy costs, partly offset by a higher depreciation charge.

Pro-forma FFO interest cover is calculated as pro-forma funds from operations divided by net interest charged to the income statement. Pro-forma FFO is defined as pro-forma operating profit adjusted for depreciation, amortisation and release of customer contributions, less defined benefit pension charge less contributions paid (as reported in the Group Cash Flow Statement) and tax paid. The pro-forma FFO interest cover increased from 3.3 times at 30 June 2013 to 3.5 times due to higher pro-forma operating profit and depreciation and amortisation, offset by higher tax paid.

Financial Results

A summary of the financial results for the period reported in the interim accounts is shown below.

	Six months ended 30 June		**Year ended 31 December**
	2014	2013	**2013**
	Unaudited	Unaudited	**Audited**
	£m	£m	**£m**
Revenue	**123.7**	127.5	**258.0**
Operating profit	**51.8**	55.9	**112.4**
Net debt	**546.3**	527.9	**558.5**
Net assets	**299.7**	231.6	**274.0**

Income Statement

- Revenue of £123.7m (2013 - £127.5m) largely comprises revenue in respect of use of the transmission and distribution systems and PSO levies. The decrease in revenue largely reflects lower use of distribution sales due to milder weather in the first six months of 2014.

- Operating costs remain largely in line with the previous year at £71.9m (2013 - £71.6m).

- Operating profit was £51.8m (2013 - £55.9m) primarily reflecting the reduction in revenue in 2014 as described above.

- Net finance costs have decreased from £21.3m to £20.4m mainly as a result of lower net pension scheme interest owing to lower inflation assumptions applied to pension scheme liabilities.

- Tax charge for the period was £6.6m (2013 - £10.8m). The lower tax charge in 2014 primarily reflects a lower statutory tax rate combined with a prior year charge of £2.4m included in the 2013 tax charge.

- Profit for the period was £24.8m (2013 - £23.8m) largely reflecting a decrease in the tax charge offset by reduced revenue and reduced pension scheme interest charges.

Balance Sheet

- Non-current assets at 30 June 2014 were £1,758.9m (31 December 2013 - £1,703.3m). The increase mainly reflects capital expenditure offset by depreciation during the period.

- Current assets at 30 June 2014 were £95.9m (31 December 2013 - £104.3m) primarily reflecting a reduction in trade and other receivables offset by an increase in cash balances.

- Current liabilities of £123.8m (31 December 2013 - £133.5m) mainly reflect lower interest payable on borrowings due to the timing of interest payments, lower trade and other payables and lower current tax payable.

- Non-current liabilities at 30 June 2014 were £1,431.4m (31 December 2013 - £1,400.1m). The increase largely reflects an increase in deferred income reflecting customer contributions in the period, an increase in the derivative financial liabilities due to restructuring the RPI linked interest rate swaps, offset by a reduction in the pension liability. The pension liability has reduced by £6.7m to £84.9m at 30 June 2014 mainly due to continued deficit repair contributions made in the period: increased asset values and lower inflation assumptions applied to liabilities were largely offset the by lower discount rate used to discount liabilities. The pension liability at 30 June 2014 and at 31 December 2013 includes the consolidation of NIE Networks Services Limited's pension asset, whereas the liability at 30 June 2013 precedes the acquisition of NIE Networks Services Limited and therefore excludes this pension asset.

Cash flow

- Net cash flows from operating activities of £63.1m (2013 - £67.9m) offset by cash outflows in respect of investing activities of £57.6m (2013 - £51.0m) resulted in a net increase in cash and cash equivalents of £5.5m during the period. Cash flows from operating activities decreased mainly as a result of higher current taxes paid due to timing of payments and a less favourable movement in working capital offset by higher contributions in respect of property, plant and equipment.

- Interest accretion totalling £77.7m was paid during the period on the RPI linked interest rate swaps. An equal and offsetting amount of £77.7m was received from ESBNI Limited, in line with the back–to-back swap arrangement entered into with ESBNI Limited in order to match the restructuring of the swaps detailed in note 6 to the accounts. There was therefore no net effect on the cash position of the Group.

Operational Review

Operational KPIs

The directors have determined that the following KPIs are the most effective measures of progress towards achieving the Group's operational objectives. Performance during the six months ended 30 June 2014 is provided below:

KPIs	**Six months ended 30 June 2014**	**Six months ended 30 June** 2013	Year ended 31 December 2013
Lost time incidents (safety)	**None**	2	2
Customer Minutes Lost (CML)			
• Planned CML (minutes)	**23**	27	50
• Fault CML (minutes)	**25**	29	56
Overall standards – defaults	**None**	None	None
Guaranteed standards – defaults	**None**	None	1
Stage 2 complaints to the Consumer Council	**2**	3	3
Applications for customer demand connections	**4,800**	4,300	8,700
Renewable generation connected			
• Small scale (<2 MW)	**34MW**	13MW	31MW
• Large scale (> 2MW)	**41MW**	60MW	60MW
Waste recycling rate (%)	**98%**	96%	97%

Safety
Ensuring the safety of employees, contractors and the general public is a key value for NIE. The aim is to provide a zero harm working environment where risks to health and safety are assessed and controlled and the target for lost time incidents continues to be set at zero. There were no lost time incidents during the period.

Customer service
CML is the average number of minutes lost per customer. Over the period both planned CMLs (for pre-arranged shutdowns for maintenance and construction) and fault CMLs (through distribution fault interruptions excluding the effect of major storms) remained low.

During the period all the overall standards were achieved and there were no defaults against the guaranteed standards set by the Utility Regulator. The number of Stage 2 Complaints to the Consumer Council for Northern Ireland remained low during the period, with only two complaints being taken up by the Consumer Council on behalf of customers.

Connections
The number of applications for customer demand connections increased to 4,800 during the period representing a recovery in the construction sector.

The rate of applications for the connection of small scale generation continued at the high levels experienced during 2013. This high level of activity has led to congestion on the distribution network which has resulted in increased costs for developers where there is significant 11kV reinforcement required. Parts of the 33kV network also require reinforcement, the approach for which is subject to agreement with the Utility Regulator.

During the period 34MW of small scale renewable generation (comprising single wind turbines, anaerobic digestors, hydro turbines and domestic solar PV microgeneration projects) were connected to the network, exceeding the total for the previous full year. During the period Dunmore Wind Farm in County Londonderry and Thornog Wind Farm in County Tyrone were connected to the network providing an additional 41MW of large scale renewable generation.

Waste recycling
The recycling rate for all hazardous and non-hazardous waste (excluding excavation from roads and footpaths) continued to improve with 98% of waste recycled during the period.

Principal Risks and Uncertainties

NIE operates a structured and disciplined approach to the management of risk overseen by the NIE Audit and Risk Committee and the NIE Board.

NIE's risk management framework comprises:

- appropriate structures in place to support risk management;
- formal assignment of risk responsibilities to facilitate managing and reporting on individual risks and to ensure specific risks are understood;
- procedures and systems for risk identification, assessment and reporting; and
- ongoing monitoring of the effectiveness of risk mitigation actions and controls.

The internal audit function provides independent assurance on the adequacy of NIE's risk management arrangements.

NIE's Risk Management Committee, comprising a number of senior managers and chaired by the Finance Director, is responsible for co-ordinating the development of the overall risk management framework for NIE including the policies, standards and procedures, organisational arrangements and reporting requirements to NIE's Executive Committee, Audit and Risk Committee and the Board.

The principal risks and uncertainties facing NIE for the remainder of the financial year, which are managed under NIE's risk management framework, are:

- the failure of the NIE Health and Safety Management System with exposure of employees, contractors and the general public to risk of injury and the associated potential liability and/or loss of reputation for NIE;
- widespread and prolonged failure of the transmission or distribution network and failing to respond adequately following damage to the network from adverse weather conditions; and
- other operational, financial and reputational risks arising from failing to meet customer service standards or business continuity, IT Security and Data Protection issues.

Further information on the principal long-term risks and uncertainties and the risk management framework are included in the Group's latest annual report for the year to 31 December 2013 which is available at www.nie.co.uk.

GROUP INCOME STATEMENT

	Note	Six months ended 30 June 2014 Unaudited £m	Six months ended 30 June 2013 Unaudited £m	Year ended 31 December 2013 Audited £m
Continuing operations				
Revenue	2	**123.7**	127.5	**258.0**
Operating costs		**(71.9)**	(71.6)	**(145.6)**
OPERATING PROFIT		**51.8**	55.9	**112.4**
Finance revenue		**77.8**	0.1	**0.3**
Finance costs		**(96.3)**	(18.6)	**(37.4)**
Net pension scheme interest		**(1.9)**	(2.8)	**(5.3)**
Net finance costs		**(20.4)**	(21.3)	**(42.4)**
PROFIT BEFORE TAX		**31.4**	34.6	**70.0**
Tax charge	3	**(6.6)**	(10.8)	**(4.8)**
PROFIT FOR THE PERIOD / YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**24.8**	23.8	**65.2**

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2014 Unaudited £m	Six months ended 30 June 2013 Unaudited £m	Year ended 31 December 2013 Audited £m
Profit for the financial period / year	**24.8**	23.8	**65.2**
Other comprehensive income/(expense):			
Remeasurement gains on pension scheme assets and liabilities	**0.9**	6.5	**1.2**
Deferred tax charge relating to components of other comprehensive income	**(0.2)**	(1.5)	**(2.8)**
Net other comprehensive income/(expense) for the period / year	**0.7**	5.0	**(1.6)**
Total net comprehensive income for the period / year	**25.5**	28.8	**63.6**

GROUP BALANCE SHEET

	Note	As at 30 June 2014 Unaudited £m	2013 Unaudited £m	As at 31 December 2013 Audited £m
Non-current assets				
Property, plant and equipment	4	**1,319.6**	1,248.2	**1,287.7**
Intangible assets	4	**36.4**	39.3	**38.7**
Derivative financial assets	6	**402.9**	398.9	**376.9**
		1,758.9	1,686.4	**1,703.3**
Current assets				
Inventories		**6.4**	7.1	**6.3**
Trade and other receivables	6	**40.3**	43.1	**54.9**
Derivative financial assets	6	**11.9**	11.4	**11.3**
Cash and cash equivalents		**37.3**	55.5	**31.8**
		95.9	117.1	**104.3**
TOTAL ASSETS		**1,854.8**	1,803.5	**1,807.6**
Current liabilities				
Trade and other payables		**82.7**	78.4	**84.5**
Current tax payable		**6.1**	10.0	**7.9**
Deferred income		**10.4**	9.7	**9.8**
Financial liabilities:				
Derivative financial liabilities	6	**11.9**	11.4	**11.3**
Other financial liabilities	6, 7	**11.4**	11.4	**18.2**
Provisions		**1.3**	2.3	**1.8**
		123.8	123.2	**133.5**
Non-current liabilities				
Deferred tax liabilities		**77.7**	77.9	**75.4**
Deferred income		**285.0**	263.7	**275.9**
Financial liabilities:				
Derivative financial liabilities	6	**402.9**	398.9	**376.9**
Other financial liabilities	6, 7	**572.2**	572.0	**572.1**
Provisions		**8.7**	7.0	**8.2**
Pension liability	8	**84.9**	129.2	**91.6**
		1,431.4	1,448.7	**1,400.1**
TOTAL LIABILITIES		**1,555.2**	1,571.9	**1,533.6**
NET ASSETS		**299.7**	231.6	**274.0**
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		**232.8**	164.7	**207.1**
TOTAL EQUITY		**299.7**	231.6	**274.0**

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

Joe O'Mahony
Managing Director

Date: 27 August 2014

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 January 2013	**36.4**	**24.4**	**6.1**	**135.9**	**202.8**
Profit for the year	-	-	-	65.2	65.2
Net other comprehensive expense for the year	-	-	-	(1.6)	(1.6)
Total net comprehensive income for the year	-	-	-	63.6	63.6
Gain on reapportionment of exiting pension scheme participant's assets	-	-	-	7.4	7.4
Deferred tax relating to gain on reapportionment of pension assets	-	-	-	(1.5)	(1.5)
Current tax relating to RPI index-linked swaps	-	-	-	16.2	16.2
Deferred tax relating to RPI index-linked swaps	-	-	-	(14.5)	(14.5)
At 1 January 2014	**36.4**	**24.4**	**6.1**	**207.1**	**274.0**
Profit for the period	-	-	-	24.8	24.8
Net other comprehensive income for the period	-	-	-	0.7	0.7
Total net comprehensive income for the period	-	-	-	25.5	25.5
Gain on reapportionment of exiting pension scheme participant's assets	-	-	-	0.2	0.2
Deferred tax relating to gain on reapportionment of pension assets	-	-	-	-	-
At 30 June 2014	**36.4**	**24.4**	**6.1**	**232.8**	**299.7**

	Share Capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m restated	Total £m restated
At 1 January 2013	**36.4**	**24.4**	**6.1**	**135.9**	**202.8**
Profit for the period	-	-	-	23.8	23.8
Net other comprehensive income for the period	-	-	-	5.0	5.0
Total net comprehensive income for the period	-	-	-	28.8	28.8
At 30 June 2013	**36.4**	**24.4**	**6.1**	**164.7**	**231.6**

GROUP CASH FLOW STATEMENT

	Six months ended 30 June 2014 Unaudited £m	Six months ended 30 June 2013 Unaudited £m	Year ended 31 December 2013 Audited £m
Cash flows from operating activities			
Profit for the period/year	**24.8**	23.8	**65.2**
Adjustments for:			
Tax charge	**6.6**	10.8	**4.8**
Net finance costs	**20.4**	21.3	**42.4**
Depreciation of property, plant and equipment	**26.1**	24.6	**50.0**
Release of customers' contributions and grants	**(4.9)**	(4.9)	**(9.8)**
Amortisation of intangible assets	**2.3**	2.1	**4.4**
Contributions in respect of property, plant and equipment	**14.9**	11.9	**29.1**
Defined benefit pension charge less contributions paid	**(7.5)**	(7.3)	**(15.0)**
Net movement in provisions	**-**	-	**(0.1)**
Operating cash flows before movement in working capital	**82.7**	82.3	**171.0**
Increase in working capital	**12.4**	15.2	**8.0**
Cash generated from operations	**95.1**	97.5	**179.0**
Interest received	**0.1**	0.1	**0.3**
Interest paid	**(25.7)**	(25.6)	**(37.5)**
Current taxes paid	**(6.4)**	(4.1)	**(9.7)**
Net cash flows from operating activities	**63.1**	67.9	**132.1**
Cash flows from investing activities			
Purchase of property, plant and equipment	**(57.5)**	(49.7)	**(105.7)**
Purchase of intangible assets	**(0.1)**	(1.3)	**(3.1)**
Purchase of investment in subsidiary, net of cash acquired	**-**	-	**(7.4)**
Net cash flows used in investing activities	**(57.6)**	(51.0)	**(116.2)**
Cash flows used in financing activities			
Receipt of interest accretion on back to back swaps	**77.7**	-	**-**
Payment of interest accretion on RPI swaps	**(77.7)**	-	**-**
Repayment of borrowings	**-**	-	**(22.7)**
Net cash flows used in financing activities	**-**	-	**(22.7)**
Net increase/(decrease) in cash and cash equivalents	**5.5**	16.9	**(6.8)**
Cash and cash equivalents at beginning of period / year	**31.8**	38.6	**38.6**
Cash and cash equivalents at end of period / year	**37.3**	55.5	**31.8**

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 INTERIM ACCOUNTS

1. Basis of Preparation

The interim accounts for the period ended 30 June 2014 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 interim accounts consolidate the results of Northern Ireland Electricity Limited (NIE or the Company) and its subsidiary undertakings (the Group).

The interim accounts have been prepared on the basis of the accounting policies set out in the accounts for the year ended 31 December 2013.

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

IFRS 10, IFRS 11,IFRS 12, IAS 27 (revised), IAS 28, IAS 32, IAS 36 and IAS 39.

The 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 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 2013 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 2013, 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 2013 was unqualified and did not contain a statement under either Section 498(2) or Section 498(3) of the Companies Act 2006 regarding inadequate accounting records or a failure to obtain necessary information and explanations.

2. Revenue

	Six months ended 30 June		**Year ended 31 December**
	2014	2013	**2013**
	£m	£m	**£m**
Revenue:			
Sales revenue	**118.8**	122.9	**248.7**
Amortisation of customer contributions from deferred income	**4.9**	4.6	**9.3**
	123.7	127.5	**258.0**
Interest receivable	**77.8**	0.1	**0.3**
	201.5	127.6	**258.3**

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

3. Tax Charge

	Six months ended 30 June		Year ended 31 December
	2014	2013	**2013**
	£m	£m	**£m**
Current tax charge			
UK corporation tax at 22% (2013 – 23.5%)	**4.5**	5.7	**11.9**
Corporation tax over provided in previous periods	**-**	(14.2)	**(0.5)**
Total current tax	**4.5**	(8.5)	**11.4**
Deferred tax charge			
Origination and reversal of temporary differences in current period	**2.1**	2.7	**4.3**
Origination and reversal of temporary differences relating to prior periods	**-**	16.6	**2.2**
Effect of decrease in tax rate on opening liability	**-**	-	**(13.1)**
Total deferred tax charge / (credit)	**2.1**	19.3	**(6.6)**
Total tax charge	**6.6**	10.8	**4.8**

4. Capital Expenditure

	Six months ended 30 June		Year ended 31 December
	2014	2013	**2013**
	£m	£m	**£m**
Property, plant and equipment	**58.1**	46.3	**121.3**
Intangible assets - computer software	**0.2**	1.4	**3.2**
	58.3	47.7	**124.5**

No assets were disposed of by the Group during the period (2013 - £nil).

5. Capital commitments

At 30 June 2014 the Group had contracted future capital expenditure in respect of property, plant and equipment of £5.0m (2013 - £8.8m) and computer software assets of £0.7m (2013 - £1.9m).

6. Financial instruments

An overview of financial instruments, other than cash and short-term deposits, held by the Group as at 30 June 2014 is as follows:

As at 30 June 2014	**Loans and receivables £m**	**Fair value profit or loss £m**
Financial assets:		
Trade and other receivables	40.3	-
Interest rate swaps	-	11.9
Total current	**40.3**	**11.9**
Interest rate swaps	-	402.9
Total non-current	**-**	**402.9**
Total financial assets	**40.3**	**414.8**
Financial liabilities:		
Trade and other payables	82.7	-
Interest rate swaps	-	11.9
Interest bearing loans and borrowings	11.4	-
Total current	**94.1**	**11.9**
Interest rate swaps	-	402.9
Interest bearing loans and borrowings	572.2	-
Total non-current	**572.2**	**402.9**
Total financial liabilities	**666.3**	**414.8**

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

Since December 2010, NIE has a £550m portfolio of RPI linked interest rate swaps. In June 2014 NIE, along with the counterparty banks, agreed a restructuring of the swaps, together with amendments to key terms. These changes included an extension of their mandatory break date from 2015 to 2022, immediate settlement in 2014 of accrued 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 counterparties to the swaps. Following the restructuring, future accretion payments will be made every five years, starting in 2018, with remaining accretion paid at maturity.

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

Arising from these changes, an amount of £77.7m in accretion payments under the swaps was made during the period. This amount had been recognised in previous periods as a negative fair value movement and this settlement of cumulative liabilities previously recognised reduced the negative fair value of the swaps. Negative fair value movements of £104.3m arose on the swaps in the six months ended 30 June 2014 (June 2013: fair value movements of £22.1m). These have been recognised within finance costs in the income statement, as hedge accounting was not available.

The fair value of interest rate swaps has been valued by calculating the present value of future cash flows, estimated using forward rates from third party market price quotations.

6. Financial instruments (continued)

The Company uses the hierarchy as set out in IFRS 7 Financial Instruments: Disclosures 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 2014 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 2014 £m	30 June 2013 £m	31 December 2013 £m
Cash at bank and in hand	**37.3**	55.5	31.8
Debt due before 1 year:			
Interest payable on £175m bond	**(9.5)**	(9.5)	(3.4)
Interest payable on £400m bond	**(1.9)**	(1.9)	(14.8)
	(11.4)	(11.4)	(18.2)
Debt due after 1 year:			
£175m bond	**(174.1)**	(174.0)	(174.0)
£400m bond	**(398.1)**	(398.0)	(398.1)
	(572.2)	(572.0)	(572.1)
Total net debt	**(546.3)**	(527.9)	(558.5)

8. Pension Commitments

	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
Market value of assets	**1,001.0**	750.5	**990.1**
Actuarial value of liabilities	**(1,085.9)**	(879.7)	**(1,081.7)**
Net pension liability	**(84.9)**	(129.2)	**(91.6)**

Changes in the market value of assets

	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
Market value of assets at beginning of the period / year	**990.1**	722.9	**722.9**
Interest income on scheme assets	**21.4**	15.1	**32.6**
Contributions from employer	**12.0**	9.0	**19.9**
Contributions from scheme members	**0.3**	0.1	**0.2**
Benefits paid	**(28.2)**	(21.9)	**(47.8)**
Administration expenses paid	**(0.4)**	-	**(1.1)**
Remeasurement gains on scheme assets	**5.6**	25.3	**45.5**
Acquisition of subsidiary under common control	**-**	-	**206.9**
Re-apportionment of exiting participant's assets	**0.2**	-	**11.0**
Market value of assets at end of the period / year	**1,001.0**	750.5	**990.1**

Changes in the actuarial value of liabilities

	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
Actuarial value of liabilities at beginning of the period / year	**1,081.7**	863.1	**863.1**
Interest expense on pension liability	**23.3**	17.9	**37.9**
Current service cost	**4.1**	1.7	**4.0**
Contributions from scheme members	**0.3**	0.1	**0.2**
Benefits paid	**(28.2)**	(21.9)	**(47.8)**
Acquisition of subsidiary under common control	**-**	-	**176.4**
Re-apportionment of exiting participant's liabilities	**-**	-	**3.6**
Actuarial losses on scheme liabilities – financial assumptions	**4.7**	18.8	**44.3**
Actuarial value of liabilities at end of the period / year	**1,085.9**	879.7	**1,081.7**

9. Related Party Transactions

During the period ended 30 June 2014, the Group contributed £12.6m (2013 - £9.3m) to the Northern Ireland Electricity Pension Scheme.

The immediate parent undertaking of the Group and the ultimate parent company in the UK is ESBNI Limited (ESBNI). The ultimate parent undertaking and controlling party of the Group and the parent of the smallest and largest group of which NIE is a member and for which group accounts are prepared is Electricity Supply Board (ESB), a statutory corporation established under the Electricity (Supply) Act 1927 domiciled in the Republic of Ireland. A copy of ESB's accounts is available from 27 Lower Fitzwilliam Street, Dublin 2.

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

	Revenue from related party £m	Charges from related party £m	Other transactions with related party £m	Amounts owed by related party at period end £m	Amounts owed to related party at period end £m
Six months ended 30 June 2014					
ESBNI	**-**	**-**	**77.7**	**-**	**-**
Other ESB subsidiaries	**10.5**	**(2.0)**	**-**	**1.2**	**1.1**
	10.5	**(2.0)**	**77.7**	**1.2**	**1.1**
Six months ended 30 June 2013					
ESBNI	-	-	-	-	-
Other ESB subsidiaries	10.6	(32.1)	-	1.4	13.5
	10.6	(32.1)	-	1.4	13.5

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

10. Contingent Liabilities

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

The Company has received claims from third parties in relation to alleged diminution in the value of land due to the existence of electricity network apparatus, a number of which were heard before the Lands Tribunal of Northern Ireland in February and June 2014. The Lands Tribunal has not yet issued a final judgement on the claims and it is uncertain whether any liability will arise as a result of these claims. In the event that any compensation is awarded, NIE will seek to recover the payment through the regulatory framework.

The Group does not anticipate that any material liabilities will arise other than those recognised in the accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that to the best of their knowledge:

(i) the interim accounts have been prepared in accordance with IAS 34 "Interim Financial Reporting" and give a true and fair view of the assets, liabilities, financial position and profit of the Group for the six months to 30 June 2014; 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

Joe O'Mahony
Managing Director

27 August 2014

nie.co.uk

Northern Ireland Electricity
120 Malone Road
Belfast BT9 5HT
Registered number: NI 26041