Northern Ireland Electricity

Annual Report & Accounts

12 months ended 31 December 2013

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Contents

Group Strategic Report

The directors present the Group Strategic Report for Northern Ireland Electricity Limited (NIE or the Company) for the year ended 31 December 2013.

The Group Strategic Report and the Accounts consolidate the results of NIE and its subsidiary undertakings (the Group). The Group's operating subsidiary companies are NIE, NIE Networks Services Limited and NIE Finance PLC. NIE Networks Services Limited (previously named NIE Powerteam Limited), which provides electrical infrastructure construction and refurbishment and other managed services to NIE, became a wholly owned subsidiary company of NIE during the year. NIE Finance PLC is the issuer of listed debt on behalf of NIE. NIE is part of the ESB Group.

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.

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, the transmission system operator in Northern Ireland.

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 the Company 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.

NIE is subject to a price control, defined in a formula set out in the Company's licences, which limits the revenue it may earn and the prices it may charge. NIE's price control in respect of the period from 1 April 2012 to 30 September 2017 was referred to the Competition Commission on 30 April 2013. The statutory deadline for the Competition Competition's determination is 30 April 2014. NIE's tariffs have been set for the period up to 30 September 2014. To the extent that there is any over or under-recovery in respect of NIE's regulated entitlement during the period 1 April 2012 to 30 September 2014 this will be addressed in the Competition Commission's determination.

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 c840,000 consumers via a number of substations. During the year an estimated 8.1TWh of electricity was distributed to consumers.

- ***c. 840,000 consumers***
- ***2,200km transmission network***
- ***45,000km distribution network***
- ***258 major substations***
- ***8.1TWh electricity distributed in 2013***

There are 2,200km of the transmission circuits, approximately 45,000km of the distribution circuits and 258 major substations. 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.

Business Overview

The focus for the business during the year has been to continue to concentrate on the key areas of safety, network reliability, customer service and business efficiency despite the uncertainty caused by the delay in settling the fifth five-year (RP5) price control which was referred to the Competition Commission in April.

Key achievements during the year included:

- Continued strong focus on managing health and safety evidenced by the low number of lost time incidents;
- Successfully reconnecting 150,000 consumers within 48 hours following the severe snow storm in March;
- Continued investment in Northern Ireland's electricity infrastructure to: replace worn assets; service increased customer demand; facilitate connection of renewable generation and maintain safety and security of supply. It is expected that the level of investment will increase following the Competition Commission's determination;
- Achievement of the British Standards Institute's 'PAS 55' certification – an internationally recognised asset management standard; and
- Contribution of £140m into the Northern Ireland economy through the employment of approximately 1,300 employees and payments to local businesses and authorities.

Achievement of British Standards Institute's PAS 55 certification

Financial Review

During the prior period NIE changed its accounting reference date from 31 March to 31 December. Therefore the results for the reported period are for the year to 31 December 2013 whereas the results for the comparative period are for the nine month period to 31 December 2012. The accounts for the period to 31 December 2012 have been restated to reflect the adoption of IAS 19 (revised) 'Employee Benefits'. Further details are disclosed in Note 2 to the accounts.

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 the Company's price control.

However, as NIE has had no agreed price control during the year, the financial KPIs cannot currently be calculated based on regulated entitlement as this will not be known until the Competition Commission makes its final determination.

The financial KPIs in this report have therefore been calculated based on revenues reported in the accounts, without any adjustment for the over or under-recovery in respect of regulated entitlement.

On this basis, the Group's operating profit as reported in the accounts was £112.4m for the year to 31 December 2013 compared to £84.7m for the nine months to 31 December 2012. On an annualised basis operating profit is largely in line with the prior year.

FFO interest cover is calculated as FFO divided by interest paid. FFO is defined as operating profit adjusted for depreciation, amortisation and release of customer contributions, less defined benefit pension charge less contributions paid (as reported

in the Cash Flow Statement) and tax paid. FFO interest cover was 3.6 times for the year compared to 3.1 times for the nine months to 31 December 2012.

A summary of the financial results for the period as reported in the accounts is shown below:

12 months ended / 9 months ended	31 Dec 2013 £m	31 Dec 2012 £m (restated)
Revenue	258.0	201.9
Operating profit	112.4	84.7
Profit after tax	65.2	44.2
Net debt	558.5	551.5
Net assets	274.0	202.8

Income Statement

- Revenue for the year of £258.0m (9 months ended 31 December 2012 - £201.9m) principally comprises revenue in respect of use of the transmission and distribution systems and PSO levies. On an annualised basis revenue has decreased compared to the prior period due to lower PSO levies partly offset by higher use of system revenues.
- Operating costs for the year were £145.6m compared to prior period operating costs of £117.2m (restated). On an annualised basis operating costs have decreased due to lower PSO costs in 2013 and non-recurring accelerated depreciation in the prior period.
- Operating profit for the year was £112.4m compared to £84.7m (restated) in the prior period. On an annualised basis operating profit is largely in line with the prior period.
- Net finance costs of £42.4m for the year largely comprised £37.5m (9 months ended 31 December 2012 - £28.2m) in respect of bond interest charges and pension scheme interest of £5.3m (9 months ended 31 December 2012 - £3.5m restated).
- Tax charge for the year was £4.8m (9 months ended 31 December 2012 – £9.3m restated) and is net of a deferred tax credit reflecting the impact of a 3% reduction in future corporation tax rates (2012 - 1%).
- Profit after tax for the year was £65.2m (9 months ended 31 December 2012 - £44.2m restated). On an annualised basis profit after tax is higher in 2013 largely due to a lower tax charge.

Balance Sheet

- Non-current assets at 31 December 2013 were £1,703.3m (2012 - £1,664.3m), reflecting an increase of £59.9m in property, plant and equipment and intangible assets during the year offset by a decrease of £20.9m in the mark-to-market value of RPI interest rate swaps.
- Current assets have decreased by £3.3m to £104.3m largely reflecting lower cash balances partly offset by higher trade and other receivables.
- Current liabilities were £133.5m (2012 - £137.3m). The decrease mainly reflects lower tax payable partly offset by increased trade and other payables due to higher payments in advance received in relation to new connections to the network.
- Non-current liabilities at 31 December 2013 were £1,400.1m (2012 - £1,431.8m). The movement reflects decreases of £20.9m in the mark-to-market value of RPI interest rate swap liabilities and £48.6m in the IAS 19 pension liability offset by increases of £18.2m in the deferred tax liability and £18.6m in deferred income. The pension liability in the Group's defined benefit scheme decreased to £91.6m (2012 - £140.2m) primarily reflecting the net pension assets of the newly acquired subsidiary, NIE Networks Services Limited, and contributions made to the scheme during the year.

Cash Flow

- Cash and cash equivalents decreased by £6.8m during the year due to net cash flows from operating activities of £132.1m (9 months ended 31 December 2012 - £74.3m) offset by cash out flows in respect of investing activities of £116.2m (9 months ended 31 December 2012 - £87.1m) and cash used in financing activities of £22.7m (9 months ended 31 December 2012 - £nil). Cash flows used in financing activities during the year reflect the repayment of borrowings to the parent company following the acquisition of NIE Networks Services Limited.

Financial Risk Management

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

Capital management and liquidity risk

The Group is financed through a combination of equity and debt finance. Details in respect of the Group's equity are shown in the Statement of Changes in Equity and in note 22 to the accounts. The Group's debt finance at 31 December 2013 comprised bonds of £174.0m and £398.1m (net of issue costs) which are due to mature in September 2018 and June 2026 respectively.

The Group's liquidity risk is managed through the preparation of cash flow forecasts. The Group's policy is to have sufficient funds in place to meet capital expenditure funding requirements for the next 12 - 18 months. The Group has committed undrawn intercompany loan facilities in place of £60m.

The Company's policy in relation to equity is to finance equity dividends from accumulated profits. In relation to debt finance, the Company's policy is to maintain a prudent level of gearing. As noted above FFO interest cover is a KPI.

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

The Company has maintained an investment grade credit rating from Standard & Poor's and Fitch during the year.

Interest rate risk

The £175m and £400m bonds are denominated in sterling and carry fixed interest rates of 6.875% and 6.375% respectively and therefore the Group is not exposed to changes in interest rates.

The Company holds a £550m portfolio of RPI interest rate swaps which have maturity dates between 2026 and 2036 and have a mandatory break date on 22 December 2015. The Company also holds a portfolio of RPI interest rate swaps with identical matching terms which hedge the Company's exposure in respect of these swaps. Further details of the swaps are disclosed in note 16 to the accounts.

Credit risk

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

	2013 £m	2012 £m
Cash and cash equivalents	31.8	38.6
Trade and other receivables (excluding prepayments & accrued income)	51.5	46.0
Other financial assets – current and non-current	388.2	408.9
	471.5	**493.5**

The Group's credit risk in respect of trade receivables from licensed electricity suppliers is mitigated by appropriate policies with security received in the form of cash deposits, letters of credit or parent company guarantees. With the exception of public bodies, payments in relation to new connections or alterations are received in advance of the work being carried out. Payments received on account are disclosed in note 14 to the accounts.

Other financial assets comprise RPI interest rate swap arrangements entered into with ESBNI Limited (ESBNI), an ESB group company. The counterparty risk from ESBNI is not considered significant given ESB's investment in the Company and ESB's strong investment grade credit rating.

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

Further information on financial instruments is set out in the notes to the accounts in compliance with IFRS 7 Financial Instruments: Disclosures.

Going Concern

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

On the basis of their assessment of the Group's financial position, which included a review of the Group's projected funding requirements for a period of 12 months from the date of approval of the accounts, the directors have a reasonable expectation that the Group will have adequate financial resources for the 12 month period and accordingly continue to adopt the going concern basis in preparing the annual report and accounts.

Operational Review

Asset Management

Asset management is at the core of NIE's business. Good stewardship of the transmission and distribution networks delivers long term value for electricity customers throughout Northern Ireland. During the year NIE published its Asset Management Strategy setting out the path that will lead NIE towards best asset management practice within the electricity industry (which can be found on NIE's website at nie.co.uk/asset_mgmt_strategy).

The strategy, which links the Company's corporate objectives and asset management policy to the detailed plans that define how NIE specifies, procures, constructs, operates and maintains its asset base, included the validation of the asset management system through an internationally recognised certification. In September, following an extensive organisation wide programme, 'Route 55', NIE achieved the British Standards Institute's 'PAS 55' certification, an internationally recognised asset management standard for the optimised management of physical assets. Going forward, NIE will benchmark its asset management processes and performance against industry leaders and best practice to establish where improvements should be made. The Asset Management Strategy will be continually reviewed to ensure that assets are managed in an efficient way, integrated with risk, health and safety, environmental and quality management systems, whilst reflecting the evolving needs of consumers and stakeholders.

Responsibility for transmission network planning is expected to be transferred to SONI in April 2014 in accordance with the European Commission decision in respect of the transmission arrangements in Northern Ireland under the IME 3 Directive. NIE will continue to be responsible for the construction, maintenance and ownership of the transmission network.

During the year NIE invested £79m (net of customer contributions) in its transmission and distribution networks. This level of investment was consistent with the annual average rate of investment undertaken during recent years. This investment was largely dedicated to ensuring compliance with NIE's statutory and licence obligations, being focused on the replacement or refurbishment of age expired network assets, as well as developments to increase the capacity of the distribution network.

This capital investment programme included £10m to facilitate the connection to the network of more renewable generation consistent with NIE's Medium Term Plan. Projects advanced during 2013 as part of the Medium Term Plan included:

- phase two of the development of the existing 275/110kV substation at Tamnamore to facilitate the flow of power from renewable generation in the west to the demand centres in the east of Northern Ireland;
- uprating of the Kells to Coleraine 110kV circuit by installing higher capacity conductors at critical spans; and
- pre-construction activity in support of a proposed new 110kV circuit between Omagh and Tamnamore.

Interconnection

In order to further strengthen the interconnection of the electricity networks of Northern Ireland and the RoI and ensure long-term security of supply in Northern Ireland, NIE continued to work with EirGrid on the development of the critical 400kV North-South interconnector project between Tyrone and Cavan. In April 2013 NIE resubmitted extensively revised and detailed planning applications following the Planning Appeals Commission's (PAC) request for relevant environmental statements to be modified. The timing for reconvening the public inquiry by the PAC is dependent on progress in the RoI and the continuing delay in the corresponding EirGrid process in the RoI will further extend the timescale for overall project consents. Following the transfer of the transmission network planning function to SONI in April 2014 SONI will have responsibility for the development of the interconnector.

Severe Weather Events

NIE continues to improve incrementally its emergency response capabilities during severe weather events in order to effectively restore supply to all consumers. The significant commitment of its frontline staff helps to ensure that NIE effectively manages this very important aspect of its business. This was tested in March 2013 when a severe snow storm resulted in widespread damage to the network and the loss of supply to around 150,000 consumers. NIE's emergency plan was fully implemented with the mobilisation of employees and external contractors including additional resources from the RoI. Helicopters were deployed to assist in locating and assessing damage and delivering equipment and crew to locations otherwise inaccessible due to heavy snow. Supplies of electricity were restored to 99% of the affected consumers within 48 hours.

Throughout December 2013 there were several periods of severe weather resulting in a total of 96,000 customer interruptions in supply. Supplies of electricity to all but 600 affected consumers were restored within 24 hours.

Following the severe storms in October 2013, a team of 46 overhead line workers and tree cutters travelled to Kent to assist UK Power Networks restore power supplies.

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 12 months ended 31 December 2013 is provided together with the comparative previous 12 month period.

	Year to 31 December 2013 (number)	Year to 31 December 2012 (number)
Customer Minutes Lost (CML)		
Planned CML (minutes)	50 minutes	56 minutes
Fault CML (minutes)	56 minutes	46 minutes
Overall standards – defaults	None	None
Guaranteed standards – defaults	1	None
Stage 2 complaints to the Consumer Council	3	2
Applications for customer demand connections	8,700	9,900
Renewable generation connected		
Small scale (<2 MW)	31MW	4MW
Large scale (> 2MW)	60MW	71MW
Lost time incidents	2	2
Waste recycling rate (%)	97%	95%

CML

Planned CML is the average number of minutes lost per consumer for the period through pre arranged shutdowns for maintenance and construction: the number of planned CML for the year to 31 December 2013 reduced to 50 minutes reflecting a reduced outage programme associated with the capital investment programme (year ended 31 December 2012 – 56 minutes).

Fault CML is the average number of minutes lost per consumer for the period through distribution fault interruptions, excluding the effect of major storms: the number of CML in the year remained low at 56 minutes (year ended 31 December 2012 - 46 minutes). The previous year's exceptionally low fault CML reflected abnormally favourable weather conditions.

Overall and guaranteed standards

Performance against the overall and guaranteed standards set by the Utility Regulator, the majority of which apply to services provided by NIE (e.g. the timely restoration of consumers' supplies following an interruption and prescribed times for responding to consumers' voltage complaints): a key priority for NIE is to consistently provide the highest standards in customer service and network performance. During the year all the overall standards were achieved and there was one default against the guaranteed standards (year ended 31 December 2012 - none).

Stage 2 Complaints to the Consumer Council

Stage 2 Complaints to the Consumer Council is the number of complaints which the Consumer Council for Northern Ireland takes up on behalf of consumers: the Company's continued strong focus on service failure analysis limits the number of instances when consumers are dissatisfied to the extent that they refer a complaint to the Consumer Council. The number of Stage 2 Complaints during the year remained low, at three (year ended 31 December 2012 – two complaints). Individual complaints received by NIE are analysed and assessed, based on the individual specific circumstances, as to whether or not the complaint was avoidable and details reported each month to the Executive Committee.

Applications for customer demand connections

The number of applications for customer demand connections reduced by c10% to 8,700 applications during the year reflecting the continued challenges facing the construction industry in Northern Ireland (year ended 31 December 2012 – 9,900 applications).

Renewable generation connected

Since DETI's introduction of increased Renewable Obligation Certificate (ROC) incentives for small scale renewable generation projects in April 2010, there has been a large influx in the rate of applications for connections of renewable generators in the range 3kW to 500kW. Throughout 2013 the rate of applications for the connection of small-scale generation continued to increase significantly. During the year 31MW of small scale renewable generation comprising single wind turbines, anaerobic digestors, hydro turbines and domestic solar PV microgeneration projects were connected to the network: the comparable figure for 2012 was

4MW connected. This high level of activity has led to serious congestion on the distribution network, particularly in the west of Northern Ireland. This has resulted in very costly connection offers to developers where there is significant 11kV reinforcment required. Parts of the 33kV network also require reinforcement, investments for which will be subject to agreement with the Utility Regulator. Connections during 2014 will increase further as a large number of connection offers accepted in 2013 will be connected. In addition, 60MW of large scale renewable generation (typically over 2MW in size), comprising three wind farms, was connected to the network (year ended 31 December 2012 - 71MW connected).

Lost time incidents

The number of lost time incidents: ensuring the safety of employees is a key priority for NIE and the target for lost time incidents continues to be set at zero. NIE's sound record continued with only two lost time incidents during the year (year ended 31 December 2012 – two incidents).

Waste recycling rate

The recycling rate for all hazardous and non-hazardous waste (excluding excavation from roads and footpaths): performance continued to improve during the year with a rate of 97% (year ended 31 December 2012 – 95%).

Looking Forward

NIE's key priorities for 2014 are:

- Safety – Ensuring the health and safety of employees, contractors and the general public will continue to be NIE's top priority;
- Electricity Infrastructure – Continuing to grow and maintain a secure and sustainable electricity network to meet the demands of Northern Ireland's electricity market, including the connection of renewable generation to support the Northern Ireland Assembly in reaching its targets in respect of electricity consumption from renewable sources;
- RP5 price control – Implementing the Competition Commission's final determination on RP5 and adopting the associated licence modifications;
- Customer service – Remaining committed to meeting all customer service expectations;
- Competitive cost base – Maintaining NIE as an efficient and highly competitive company requiring value for money in all its endeavours;
- People – Continuing investment in employees to enhance the organisation's capability, through: further employee development programmes, increased employee engagement and extended educational outreach initiatives;
- Stakeholders – Engaging effectively with key stakeholders including the regulators, renewables industry groups, CBI and large energy users.

Corporate Social Responsibility

NIE provides a vital service to every home, farm and business in Northern Ireland as part of its day to day work in delivering electricity supplies. Through our mainstream business activities and various specific initiatives we seek to make a positive impact on the communities in which we operate. We are committed to operating in a socially, environmentally and ethically responsible manner.

Initiatives undertaken during the year to support our principal Corporate Social Responsibility (CSR) themes and priorities are described below.

People

Health & safety

Ensuring the safety of employees, contractors and the general public continued to be the number one value at the heart of all our business operations. The aim is to provide a zero harm working environment where risks to health and safety are assessed and controlled. This is achieved by the promotion of a positive health and safety culture and adherence to legislation and recognised safety standards. The health and safety management system is based on best practice guidance from the Health and Safety Executive for Northern Ireland (HSENI) and the Institute of Directors. Our staff continue to engage with the Energy Networks Association, other utilities and relevant statutory organisations to review and improve safety performance and learning.

The benefit of staff reporting 'near miss' incidents is key to improving safety performance. The quality of 'near miss' incidents reported improved during the year enabling weaknesses in operational procedures to be identified and addressed.

The programme of safety training continued throughout the year with appropriate staff attending a wide range of courses including NIE Safety Rules, Construction Design and Management Regulations workshops and certificate courses in Construction, Health and Safety provided by the National Examination Board in Occupational Safety and Health (NEBOSH). The regular programme of departmental safety seminars continued for operational staff and, in addition, during 2013 the majority of non-operational staff attended a safety seminar. Instructions and guidance to support NIE's Safety Rules were revised and communicated to operational staff regularly. There are comprehensive contractor management arrangements in place to ensure that contractors adhere to the same safety rules and requirements as employees.

The site safety inspection programme continued throughout the year with over 270 trained staff, from the Managing Director to the first line manager, in addition to five full time safety engineers, conducting over 4,300 audits and inspections.

During European Safety Week health checks and healthy lifestyle talks were offered to employees via Northern Ireland Chest, Heart and Stroke, Action Cancer and our occupational health advisers.

Employment

Employees are the most important asset in the business. We aim to attract, develop and retain highly skilled people through graduate schemes, apprenticeships and other trainee and sponsorship programmes. We are committed to a working environment which enables employees to realise their maximum potential and to be appropriately challenged and fully engaged in the business, with opportunities for skills enhancement and personal development. Human Resources policies are aligned with key business drivers including: performance and productivity improvement; clearly defined values and behaviours; a robust performance management process; and a strong commitment to employee development.

We aim to maintain a highly ethical approach to regulatory responsibilities, licence obligations and public positioning and to be transparent and ethical in all our dealings with third parties. During the year a new Employee Code of Business Ethics provided clear guidance on the high standards of ethical behaviour expected in conducting every aspect of NIE's work.

To ensure a highly skilled, multi-disciplined workforce, a multi-skilled approach has been taken to vocational training schemes and for the second year in succession the Education and Training Inspectorate assessed the quality of training provided by NIE's apprenticeship training programme as 'Outstanding'. During the year a new initiative, the 'Apprentice to Graduate' scheme was launched, with a fully trained NIE apprentice going to university to study electrical engineering.

The focus on succession management and leadership development continued with over 250 management and technical leadership roles involved from senior executive to first line managers. The development programme during the year included role changes, role enhancement, skills development, formal qualifications, team development initiatives, coaching and mentoring. There was extensive training across the organisation on HR policies and procedures and customer service.

Our policy is that the pro-active management of absenteeism is to the mutual benefit of the organisation and its employees. An employee health and well-being policy covering stress management is in place with specific policies on mental health, alcohol and drug-related problems and non-smoking. External occupational health and counselling services are available for employees. Sickness absence during the year was 2.95% (nine month period ended 31 December 2013 - 2.80%), remaining lower than the UK national average of 3.3%.

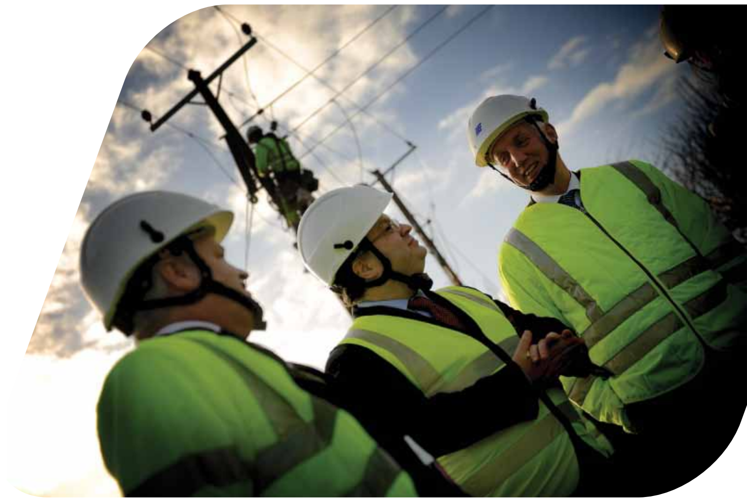
Significant emphasis is placed on employee participation and communications. There is a formal induction programme for all new starts including meeting with senior management. During the year employees were kept informed of NIE's aims, objectives, plans, financial and operational performances and their effect on them as employees through the monthly newsletter and monthly team briefings. In addition, a series of roadshow presentations by the Managing Director ensured that all employees were briefed on major developments. Formal meetings are held regularly between senior managers and representatives of employees and their unions to discuss matters of common interest. Employee relations are positive and constructive with approximately 66% of employees being union members.

Following on from the employee engagement survey conducted in late 2012, throughout the year around 130 employees were involved in focus groups as part of a significant employee engagement programme to address issues raised in the survey.

NIE is accredited by the UK Commission for Employment and Skills with the Investors in People (IIP) Standard, which tests ongoing investment in people to improve business performance.

Equality & diversity

We are pro-active in implementing human resource policies and procedures to ensure compliance with fair employment, sex discrimination, equal pay, disability discrimination, race discrimination, sexual orientation and age discrimination legislation. As set out in our Equal Opportunities Policy, we are



Launch of the 'Apprentice to Graduate' scheme at NIE's Campsie training facilities with Stephen Farry, Minister for Employment and Learning committed to providing equality of opportunity for all employees and job applicants. There is ongoing monitoring of actions taken to promote compliance with legislation and to ensure that we provide equality of opportunity in all our employment practices.

In order to ensure diversity and inclusion in the workplace we introduced new arrangements for 'Respect and Dignity in the Workplace' in line with best practice with all staff trained on their personal responsibilities in respecting differences. HR staff received specific training on 'Sexual Orientation and LGB (Lesbian, Gay and Bisexual) Employment Equality'.

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

Sustainability

Policy and objectives

Our environmental policy commits to protecting the environment and is designed to ensure compliance with all relevant legislative and regulatory requirements. Where practical and economically viable, we seek to develop standards in excess of such requirements. Areas of particular focus include the responsible management of waste and recycling, measures to protect against oil pollution and the promotion of energy efficiency. There is a full-time environmental compliance officer and designated auditors in relevant business operations.

During the year our environmental management system retained its certificate to ISO 14001:2004 standard. In the 2013 environmental management survey conducted by ARENA Network in Northern Ireland, NIE achieved a first quintile position significantly out-performing both the Northern Ireland average and the utilities sector average.

Electric vehicles

During the year NIE installed 130 electric vehicle charge posts as part of the Office for Low Emission Vehicles 'Plugged in Places Infrastructure Framework', providing comprehensive coverage for electric vehicle travel across Northern Ireland. This 'E-car' project, managed by the Department of Regional Development and the Department of the Environment, and part funded by NIE, won the Outstanding Work in the Renewable Sector award at the 2013 Action Renewables Association Awards.

Research & development

The 'Shift & Save' Smart grid trial continued during the year. The trial, involving 200 homes in the Coleraine area, investigates how Smart meters and Smart grid technology could change homeowners' energy usage patterns, particularly at times of peak demand in the early evening, to reduce and flatten demands on the network. Smart meters were installed in participants' homes and Smart monitoring equipment installed at the substations supplying these homes. Following an initial technology monitoring phase, customer behaviour is now being monitored via in-home displays and the application of a multi-rate 'shadow tariff'. Initial analysis suggests that consumers are making changes to shift some of their energy use away from the peak period. The trial will run to June 2014.

Sponsorship

We continued to support Conservation Volunteers Northern Ireland by providing a vehicle to its team working with primary schools to establish wooded and other natural habitats to improve local biodiversity.

Community

We estimate that more than 200 days of company time are dedicated each year to community initiatives to promote safety around electricity, skills and careers advice and guidance. In 2013 we set a specific target to give an additional 2,000 expert volunteer hours to charity (1,000 hours of NIE time and 1,000 hours of employees' personal time) by nominating around 30 employees for appointment to the boards of local voluntary, community and social enterprise organisations through Business in the Community's 'Business on Board' project. The various boards are benefiting from the skills and expertise of our employees with the participants gaining from the development of new skills, especially on financial and strategic issues which can help their development within NIE.

Customer care

We aim to deliver electricity safely and reliably to consumers and to respond quickly and efficiently should a power cut unexpectedly occur. Proactive campaigns to communicate to key consumer and government bodies and elected representatives how we repair network faults are run annually through a series of open days. During 2013 we restored 89% of consumers' electricity supply within three hours against our regulatory target of 87%. During a severe storm or emergency situation, each employee has a specific role, which may be totally different to his/her normal role.

We have engaged with Councils, emergency planners and other agencies, such as the health trusts and the Red Cross, to develop protocols to respond to wider community needs in the event of consumers being without electricity for an extended period of time due to severe weather or emergency situation.

NIE & BT working together following the March snow storm

Together with our utility partners, Northern Ireland Water, BT and Phoenix Natural Gas, we developed plans to provide mutual support, for example by sharing resources and equipment, so that consumers' utility supplies can be restored more quickly during periods of severe weather or other emergency situations. In March the plan was implemented for the first time when NIE lent BT equipment and manpower to help repair the telecoms network following severe weather. The group published a 'cut out and keep' Winter Preparation Contact List for consumers.

We have special arrangements in place to assist more vulnerable members of the community with a critical care information service to consumers who rely on electricity for their healthcare needs. The service is promoted through targeted customer groups, health care trusts and specific equipment manufacturers. A specific team is dedicated to communicating with these 4,500 consumers during planned or unplanned power cuts.

NIE's website has been developed further to provide a more service-based experience for consumers contacting us via an internet enabled phone or tablet device. Consumers can submit meter readings, apply for connections to the electricity network and report power cuts online. Consumers can also communicate with NIE via Twitter @NIElectricity.

Meter readers continued to deliver leaflets to households on the Police Service of Northern Ireland's (PSNI) Quick Check scheme to encourage homeowners to check the identification of callers.

Safety advice

We aim to continually heighten the awareness of the general public to the dangers of electricity and the risks of coming into contact with the electricity network by running a major safety outreach programme involving employees at all levels.

During 2013, over 15,000 farmers and contractors received safety advice from NIE at farm safety events and through the issue of 'Farm Risk Assessment' and other safety material through the Ulster Farmers Union. NIE assisted HSENI in issuing safety advice for contractors working near the low voltage network. Together with other organisations, we assisted the PSNI to develop a Risk Avoidance and Danger Awareness Resource (RADAR), a dedicated safety training facility for children and young people to become operational during 2014.

Our 'Kidzsafe' programme was relaunched during 2013, with over 19,000 schoolchildren participating in the interactive programme to educate and raise awareness of the dangers of electricity network in an effort to reduce incidences of vandalism and electricity-related injuries.

We continued to work with the PSNI and other utilities to address the dangerous issue of metal theft. Thieves targeting electrical installations endanger themselves, NIE staff and the wider public. During the year a voluntary Code of Conduct was adopted by some local scrap metal dealers and NIE is supporting the introduction of legislation to control scrap metal trading.

Launch of NIE's Kidzsafe campaign

NIE's safety advice is supplemented by a proactive media campaign, social media campaign and information available on our website at nie.co.uk/safety.

Charitable giving

We promote charitable giving among our employees through the NIE Staff and Pensioners Charity Fund. The fund is promoted and managed by a nominated internal committee and each contributing member can nominate a charity to receive donations. During the year the Company also contributed £14,000 to the fund. In 2013 £69,000 was donated to local charities and a special donation of over £16,000 was made to the Philippines Disaster Appeal.

A team of NIE employees participated in the 'CARES' charity shop challenge raising over £6,000 for Action Cancer. The challenge also enabled the employees to demonstrate their communications and management skills and ability to engage employees across all business units to donate sellable items and organise fundraising events.

Work experience and educational outreach

Working on electricity networks requires highly specialised skills. With fewer students choosing science and technology subjects, coupled with the need to invest heavily in network renewal and investment projects, the electricity industry faces significant skills shortage in the future. NIE therefore continues to engage proactively with students to consider engineering as a career. During the year we provided valuable work experience opportunities to GCSE and A-Level pupils. Four weeks of research and development experience for two A-Level students was provided via the Nuffield Bursary scholarship.

Many employees continued to be involved in furthering our links with over 60 schools, most of the further educational colleges and the two universities to promote the opportunities from taking Science, Technology, Engineering and Maths (STEM) subjects and promoting careers in the electricity industry through a wide range of educational outreach initiatives including careers guidance, mentoring, work experience for STEM teachers, interview skills, electrical engineering scholarships, and sponsoring energy projects. For example, during the year NIE:

- sponsored the First Lego League, a global robotics programme for children providing a cross-curricular approach to teaching STEM subjects;
- continued to provide mentoring services to school children participating in the Institute of Engineering and Technology (IET) 'SMART Energy' project and 'Team R&D', a research and development project in conjunction with Sentinus, a government charity working with schools and colleges throughout Northern Ireland to deliver programmes promoting STEM learning;
- sponsored the Young Innovators award for Innovation with Electricity;
- continued its outreach to attract females into the industry by providing a two day 'Insight into Engineering' placements for 10 key stage 4 and 5 students;
- provided three further NIE Electrical Engineering scholarships at Queen's University Belfast and sponsored a further two Electrical and Electronic Engineering students through their studies as part of the IET Power Academy Council that works alongside seven UK universities to encourage students into power engineering. In total we have 16 scholarship students at Queen's University; and
- continued to support Queen's University, Belfast's DeLorean car project for students to convert to electric-powered and for use by both NIE and Queen's University in educational outreach work.

In addition, work placements of up to 12 months were provided to a number of young unemployed people through the Youth Employment Scheme in conjunction with the Department of Employment and Learning, the Skills Development Programme and the Enhanced Employer Subsidy programme.

Sponsorship

NIE was the main financial sponsor of the 'Lumiere' art and light show, one of the key events in Derry/Londonderry's year as UK City of Culture.

Procurement

We recognise that we have an opportunity to encourage suppliers of materials and services to deliver good environmental and safety performance and to maintain responsible practices towards their employees and the communities in which they operate. NIE subscribes to the Achilles utilities vendor database which acts as an aid to pre-qualify potential suppliers for major contracts on a fair and equal basis; this assessment includes environmental and health and safety practices. In addition NIE assesses suppliers' ethical practices through pre-tender questionnaires.

Risk Management

Risk Management Policy and Framework

The Board has overall responsibility for NIE's risks. Recognising that risk is an active element of the environment within which NIE operates, the Board is committed to successfully managing exposure to risk and to minimising the impact of risk on the achievement of business objectives.

NIE's Risk Management Policy requires that risk management be integrated into normal management processes. In support of the policy, the Board has established an overall risk management framework that provides for the continuous identification, evaluation and management of NIE's significant risks and includes appropriate structures to support risk management and the formal assignment of risk responsibilities to facilitate managing and reporting on individual risks.

The Risk Management Policy is reviewed annually by the Board. NIE's Risk Management Committee (RMC) oversees and directs risk management in accordance with the approved policy. The RMC comprises a number of Executive Committee members and senior managers and is chaired by the Finance Director. The RMC considers risk assessments carried out by each business unit and the risk status and mitigation strategies are reviewed quarterly. The RMC reports on its activities to the Executive Committee, Audit & Risk Committee and the Board during the year.

The internal audit function is independent of the risk management process and has provided independent assurance on the adequacy and effectiveness of NIE's risk management arrangements.

NIE was the main financial sponsor of 'Lumiere' at Derry/Londonderry UK City of Culture

Principal risks and uncertainties

The principal risks and uncertainties that affect the Group, as identified by the RMC, along with the main mitigating strategies deployed are outlined below.

Risk category	Risk description	Mitigating strategies
Health & safety risks		
Failure to manage health and safety obligations	Exposure of employees, contractors and the general public to risk of injury and the associated potential liability and/or loss of reputation for NIE.	A comprehensive annual Health, Safety and Risk Plan approved by the NIE Board setting out detailed targets for the management of health and safety. Comprehensive safety rules, policies, procedures and guidance reviewed and communicated regularly and compliance monitored on an ongoing basis. A strong focus on the inspection of work sites and the reporting, reviewing and communication of near miss incidents. Ongoing programmes to increase public awareness of the risks and dangers.
Regulatory risks		
Price controls	Inadequate allowances from price control reviews.	NIE manages regulatory risks through the Director of Regulation, the Regulatory Affairs team and relevant senior managers across the organisation with specialist external advice. Regulatory submissions are evidence based.
Licence compliance	Fail to comply with regulatory licence obligations.	The Compliance Manager within the Regulatory affairs team co-ordinates and monitors compliance with all regulatory licence obligations and reporting to the Utility Regulator on financial and other regulatory matters.
Financial risks		
Funding and liquidity	Continuing ability to secure adequate funding at appropriate cost for planned investments and to maintaining NIE's credit metrics within rating targets. Exposure to financial counterparty risk.	NIE employs a continuous forecasting and monitoring process to manage risk of inadequate funding. NIE's detailed Treasury Policy and procedures are regularly reviewed, revised and approved by the Board as appropriate. NIE's credit risk in respect of receivables from licensed electricity suppliers is mitigated by appropriate policies with security received in the form of cash deposits, letters of credit or parent company guarantees.

Risk category	Risk description	Mitigating strategies
Pensions	Increase in the deficit in the defined benefit section of the Northern Ireland Electricity Pension Scheme (NIEPS) ('Focus').	'Focus' has been closed to new entrants since 1998. Since then new members have joined the money purchase section of the NIEPS ('Options'). The NIEPS trustees seek the advice of professional investment managers regarding the scheme's investments. A deficit repair plan was implemented following the last actuarial review as at 31 March 2011. The next actuarial review will be conducted as at 31 March 2014.
Market risks		
Consumer service	Fail to meet standards for consumer service resulting in damage to reputation.	Stretching consumer service standards are approved by the NIE Board. Performance against these standards is monitored and reported on a monthly basis.
Connection of renewable generation	Failure to meet standards for the connection of renewable generation due to the high level of applications, with resulting damage to reputation.	Procedures are in place to manage connection applications in accordance with NIE's regulatory obligations. NIE continues to liaise with the Utility Regulator, relevant government departments and industry representatives to facilitate a co-ordinated and structured approach to addressing, and communicating on, renewable connections.
Operational risks		
Network reliability	Widespread and prolonged failure of the transmission or distribution network.	The risk is minimised through ongoing assessment of the network condition and development of asset management techniques to inform maintenance and replacement strategies and priorities. NIE's asset management practices are certified to British Standards Institute's PAS 55, the internationally recognised standard for asset management. The network is strengthened through appropriate investment, a reliability-centred approach to maintenance and a systematic overhead line refurbishment and tree cutting programme. NIE's strategy is to continue to maintain and develop a safe and secure network to meet the market demands.
Response to emergency situations	Failing to respond adequately following damage to the electricity network from adverse weather conditions.	System risk assessments are completed regularly and weather forecasts actively monitored daily. There is a comprehensive Emergency Plan and Storm Action plan in place, each reviewed and tested regularly

Risk category	Risk description	Mitigating strategies
		with emergency simulations carried out at least annually. Duty incident teams provide cover 365 days a year with arrangements in place for access to external utility resources if required.
Business Continuity	NIE could sustain a greater than necessary financial impact through inability to carry on its operations, either for a short or prolonged period.	NIE maintains business continuity plans incorporating an IT disaster recovery and relocation plans which are reviewed and tested annually. Comprehensive business continuity and disaster recovery plans are maintained for important outsourced ICT, business process and telecommunications services.
IT Security and Data Protection	Loss of data through malicious attack on IT systems or employee negligence impacting on operational performance or reputation.	NIE's IT Security Forum ensures the maintenance of adequate IT security policies. Robust ICT standards, policies and procedures for system access are in place and communicated across the organisation. NIE's Data Protection Forum implements and monitors compliance with data protection policy and procedures.
People risks		
Knowledge and skills and succession management	Inadequate resources with the necessary knowledge and skills.	NIE's strategy is to attract, recruit and develop highly skilled people through graduate, apprenticeship, trainee and sponsorship programmes to ensure that appropriate resources are in place to meet NIE's regulatory obligations.
	Failure to develop and retain staff.	People development is a key priority for the Company with continued investment in staff training, skills development and ongoing performance improvement. Focused management development programmes are in place to maximise the potential of staff and ensure adequate succession planning.

By order of the Board

Joe O'Mahony
Managing Director

Northern Ireland Electricity Limited
Registered Office
120 Malone Road
Belfast BT9 5HT
Registered Number: NI 26041

Date: 13 March 2014

Board of Directors & Executive Committee

Board members

STEPHEN KINGON CBE was appointed independent non-executive Chairman of the Board in March 2011. He is Chairman of the NI Centre for Competitiveness, Balcas Group and Lagan Group (Holdings) Limited. He is Honorary Treasurer at Queen's University Belfast, a member of Belfast Harbour Commissioners and a non-executive director of Mivan Ltd, AIB Group (UK) plc, Anderson Spratt (Holdings) Ltd and Baird Group Ltd. He was formerly Chairman of Invest Northern Ireland and Managing Partner of PricewaterhouseCoopers in NI.

ROTHA JOHNSTON CBE was appointed as an independent non-executive director in March 2011. She is Pro-Chancellor of Queen's University Belfast and Chairperson of Northern Ireland Screen. She is a member of Belfast Harbour Commissioners and an independent board member at the Department of Justice for Northern Ireland. She was formerly National Trustee for Northern Ireland for the BBC Trust. Ms Johnston chairs the Audit Committee.

RONNIE MERCER CBE was appointed as an independent non-executive director in March 2011. He has been Chairman of Scottish Water since 2006 and in 2013 was awarded the CBE for his services to Scottish Water. He has extensive relevant experience and knowledge of the energy sector as he formerly held senior executive positions at Scottish Power including Group Director, Infrastructure and Executive Vice President, Operations of the PacifiCorp subsidiary.

JOE O'MAHONY joined the Board in March 2011. He was appointed Managing Director in July 2011. He has held a number of senior executive positions in ESB including Head of Wind Development and Head of Network Projects. Prior to this he held senior roles in ESB Human Resources, Commercial Management and with ESB International. He is a non-executive director of the National Roads Authority of Ireland.

PETER EWING was appointed NIE's Deputy Managing Director and Director of Regulation in December 2010 on ESB's acquisition of the Company and joined the Board in July 2011. He joined NIE in 1998 as Finance Director and was appointed General Manager Viridian Group Finance in 2003. In 2007 he was appointed to the Viridian Group Board as Group Finance Director. He is a fellow of Chartered Accountants Ireland and was formerly Finance Director of the Moy Park Group.

Executive Committee members

The Executive Committee is chaired by the Managing Director. Its other members are the Deputy Managing Director and Director of Regulation, Asset Management Director, Construction Director, Operations Director, Finance Director, and HR Director.

ROBERT WASSON was appointed as Asset Management Director in January 2012 following joining NIE in January 2011. Previously he has led KPMG's organisational restructuring and performance improvement practice and Watershed, a consulting and interim management company, both based in the RoI. Prior to that he held various technical and managerial roles in ESB's Transmission and Distribution function and with ESB International.

CON FEENEY was appointed as Construction Director in January 2012. Prior to that he was Director of Operations. He joined NIE in 1996 as a graduate engineer and has progressed through various management roles in Lines and Cables, Customer Operations and Plant and Technical.

ROGER HENDERSON was appointed Operations Director in January 2012. He joined NIE as a graduate engineer in 1991 and has progressed through various management roles in Power Networks, Major Projects and Plant and Technical.

MARY COLLINS was appointed Finance Director of NIE and a member of the Executive Committee in January 2011. She has held a number of senior commercial and financial positions throughout the ESB Group including Group Financial Controller from 2004 – 2009. Prior to joining NIE she managed ESB's Corporate Performance Improvement Project. A fellow of the Institute of Chartered Accountants, Mary qualified with KPMG and worked in their Irish, US and UK practices.

GORDON PARKES was appointed as NIE's HR Director and member of the Executive Committee in January 2011. He joined NIE Networks Services as HR Director in 2000 and was also appointed HR Director of NIE in 2002. From 2004 to 2010 he was General Manager Group HR for the Viridian Group. Previously he held HR director roles in the textiles, pharmaceutical and manufacturing sectors.

Directors' Report

Basis of preparation

The directors of Northern Ireland Electricity Limited (NIE or the Company) present their report and the Group accounts for the year ended 31 December 2013. The accounts consolidate the results of NIE and its subsidiary undertakings (the Group). The operating companies in the Group comprise NIE, NIE Networks Services Limited and NIE Finance PLC. NIE Networks Services Limited (previously named NIE Powerteam Limited), which provides electrical infrastructure construction and refurbishment and other managed services to NIE, became a wholly owned subsidiary of NIE during the year. NIE Finance PLC is the issuer of listed debt on behalf of NIE.

The accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applied in accordance with the provisions of the Companies Act 2006.

The ultimate parent undertaking of the Company is Electricity Supply Board (ESB), a statutory corporation established under the Electricity (Supply) Act 1927 domiciled in the Republic of Ireland.

The accounts presented are for the year ended 31 December 2013 with the comparative period reported being the nine months ended 31 December 2012.

Results and Dividends

The results for the year ended 31 December 2013 show a profit after tax of £65.2m (nine months ended 31 December 2012 - £44.2m restated). The Company did not pay any dividends during the year (nine months ended 31 December 2012 - £nil). The business and financial review, together with future business developments is provided in the Group Strategic Report.

Corporate Governance

The Board of NIE believes that effective corporate governance is a fundamental aspect of a well-run business and is committed to achieving the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the business.

NIE's regulatory licences require it to establish, and at all times maintain, full managerial and operational independence within the ESB Group.

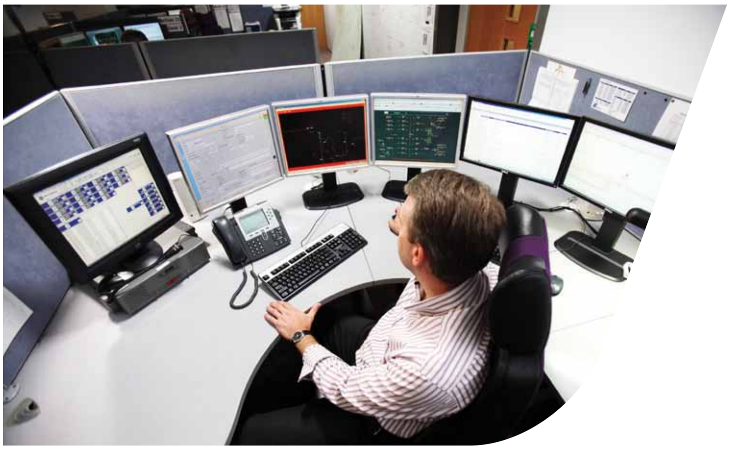
NIE's Board comprises two executive directors and three independent non-executive directors. Stephen Kingon CBE chairs the Board. Rotha Johnston CBE and Ronnie Mercer CBE are the Board's other independent non-executive directors. Joe O'Mahony, Managing Director NIE and Peter Ewing, Deputy Managing Director and Director of Regulation are the executive directors. There were no changes to the composition of the Board during the period. The Board meets at least quarterly and also meets on other occasions as necessary: it met eight times during the year with all members attending each meeting.

The Board has a formal schedule of matters specifically reserved to it including:

- approval of the annual financial plan;
- approval of annual statutory, interim and regulatory accounts;
- approval of major capital expenditure;
- approval of major regulatory submissions and certain annual regulatory reports;
- approval of key corporate policies;
- approval of the annual Health & Safety Plan;
- review of financial and operational performance; and
- review of internal control and risk management.

During the year the Board conducted a review of its performance, and that of the Audit & Risk Committee, in order to identify ways to improve effectiveness.

The Board has overall responsibility for the long term success and management of the Company. The Board has delegated authority to the Executive Committee of the Board, within pre-defined authority limits, to undertake much of the day-to-day business and management and operation of NIE. It meets monthly and on other occasions as necessary and reports on its activities to each Board meeting.



Membership of the Board, the Audit & Risk Committee and the Executive Committee is outlined below:

Board of Directors

Stephen Kingon, CBE (Chairperson)
Rotha Johnston, CBE (Independent Non-Executive Director)
Ronnie Mercer, CBE (Independent Non-Executive Director)
Joe O'Mahony (Managing Director)
Peter Ewing (Deputy MD and Director of Regulation)

Audit & Risk Committee

Rotha Johnston, CBE (Chairperson)
Stephen Kingon, CBE
Ronnie Mercer, CBE

Executive Committee

Joe O'Mahony, Managing Director (Chairperson)
Peter Ewing, Deputy MD and Director of Regulation
Robert Wasson, Asset Management Director
Con Feeney, Construction Director
Roger Henderson, Operations Director
Mary Collins, Finance Director
Gordon Parkes, HR Director

Audit & Risk Committee

The Audit & Risk Committee is a formally constituted committee of the Board with responsibility for overseeing the Group's financial reporting process and internal control and risk management systems. During the year its terms of reference were revised to reflect the committee's role in overseeing risk management and it was renamed the Audit & Risk Committee. Its terms of reference can be found on NIE's website at nie.co.uk/Board-Executive.

The Audit & Risk Committee comprises the three independent non-executive directors and is chaired by Rotha Johnston. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience. The Committee had six meetings during the period with all members attending each meeting.

During the period the Committee reviewed:

- NIE's Risk Management Policy, risk management framework, key risks facing NIE, key risks facing each business unit and mitigating actions being taken and Risk Management Plan for 2014;
- the internal audit plan, with updates on audit reports and issues arising being considered at most meetings;
- the effectiveness of internal controls and the risk management system;
- terms of engagement of internal auditors;
- NIE's interim, annual and regulatory accounts and NIE Finance PLC's annual accounts, considering the appropriateness of accounting policies, whether the accounts give a true and fair view and the appropriateness of the going concern assumption and reviewing the significant issues and judgements;
- the external auditor's plan for the scope of the audit of the statutory accounts;
- reports from the external auditor on its audit of the annual and regulatory accounts, recommendations made by the auditor and management's response and its review of NIE's interim report and accounts;
- a report on the effectiveness and independence of the external auditors;
- various regulatory submissions;
- a new Employee Code of Business Ethics, Policy on fraud and related unlawful activities and arrangements for 'whistleblowing';
- its own terms of reference to ensure they were up to date and in line with best practice; and
- its own effectiveness as part of the Board and Committees' performance evaluation.

The Committee makes recommendations to the Board on the appointment of the external auditors and their remuneration and determines their terms of engagement. The current external auditors, Ernst & Young, were re-appointed in 2012 following a re-tendering exercise.

There is a policy in place regarding the provision of non-audit services by the external auditor, whereby, other than as specifically approved by the Committee, such services should be limited to advice in relation to accounting, taxation and compliance issues.

The internal and external auditors have full access to the Audit & Risk Committee. During the year the Committee met separately with each of the internal and external auditors without management present.

Internal Control Framework

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

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

- a code of business ethics that requires all Board members and employees to maintain the highest ethical standards in conducting business;
- a clearly defined organisational structure with defined authority limits and reporting mechanisms;
- a risk management framework including the maintenance of risk registers and ongoing monitoring of key risk and mitigating actions;
- a comprehensive set of policies and procedures relating to financial and operational controls including health and safety, regulation, HR, asset management, risk management and capital expenditure;
- appropriately qualified and experienced personnel;
- comprehensive budgeting and business planning processes with an annual budget approved by the Board;
- an integrated accounting system with a comprehensive system of management and financial reporting. Cumulative monthly actual results are reported against budget and considered by the Executive Committee and the Board members on a monthly basis. Any significant changes and adverse variances are questioned and remedial action taken where appropriate;
- key managers formally evaluating, and the internal auditors testing, the satisfactory and effective operation of financial and operational controls; and
- external auditors providing advice on specific accounting and tax issues.

The Board, supported by the Audit & Risk Committee, has reviewed the effectiveness of the system of internal control.

Directors' Insurance

The Company purchased and maintained directors' and officers' liability insurance throughout the year.

Disclosure of Information to the Auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Having made enquiries of fellow directors and the Group's auditors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Re-appointment of Auditors

In accordance with Section 487 of the Companies Act 2006, Ernst & Young LLP is deemed to be reappointed as external auditors of the Company.

Financial Risk Management

Details of the Group's objectives and policies for financial risk management (including liquidity risk and credit risk) are provided in the Financial Review section of the Group Strategic Report.

Disability

Information on the Group's policies with regard to disabled employees are provided in the Corporate Social Responsibility section of the Group Strategic Report.

Employee Participation

Details of the various arrangements in place to encourage employees to be involved in and participate in the affairs of the Group are provided in the Corporate Social Responsibility section of the Group Strategic Report.

Research & Development

Details of the 'Shift and Save' smart grid trial are provided in the Corporate Social Responsibility section of the Group Strategic Report.

Statement of Directors' Responsibilities

The directors are responsible for preparing the report and accounts in accordance with applicable United Kingdom law and those IFRS as adopted by the EU.

Company law requires the directors to prepare accounts for each financial period. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and the Company for that period.

In preparing those accounts the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group and the Company;
- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements of IFRS as adopted by the EU is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and the Company's financial position and financial performance, and disclose and explain any departure from IFRS as adopted by the EU where, in their view, compliance would be so misleading as to conflict with a fair presentation; and
- state that (except for any such departure) the accounts have been prepared in accordance with IFRS as adopted by the EU.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Group and Company accounts comply with the Companies Act 2006 and, in the case of the Group accounts, Article 4 of the International Accounting Standards (IAS) Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

As required under the UK Listing Authority's Disclosure and Transparency Rules, each of the directors as detailed on page 19 confirms that to the best of his/her knowledge:

- the accounts, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the Group Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Joe O'Mahony
Managing Director
Northern Ireland Electricity Limited
Registered Office
120 Malone Road
Belfast BT9 5HT
Registered Number: NI 26041

Date: 13 March 2014

INDEPENDENT AUDITOR'S REPORT
To the members of Northern Ireland Electricity Limited

We have audited the accounts of Northern Ireland Electricity Limited for the year ended 31 December 2013 which comprise the Group Income Statement, the Group and Company Statements of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group and Company Cash Flow Statements and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and, as regards the Company accounts, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 22 the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (ISA) (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounts
An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the accounts
In our opinion:

- the accounts give a true and fair view of the state of the Group's and Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group accounts have been properly prepared in accordance with IFRS as adopted by the EU;
- the Company accounts have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006 and as regards the Group accounts, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Group Strategic Report and the Directors' Report for the financial period for which the accounts are prepared is consistent with the accounts.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company accounts are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Galbraith (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast
Date: 13 March 2014

- The maintenance and integrity of the Northern Ireland Electricity Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

GROUP INCOME STATEMENT
for the year ended 31 December 2013

	Note	**12 months ended 31 December 2013 £m**	9 months ended 31 December 2012 £m restated
Revenue	3	**258.0**	201.9
Operating costs	4	**(145.6)**	(117.2)
OPERATING PROFIT		**112.4**	84.7
Finance revenue	6	**0.3**	0.2
Finance costs	6	**(37.4)**	(27.9)
Net pension scheme interest	6	**(5.3)**	(3.5)
Net finance costs	6	**(42.4)**	(31.2)
PROFIT BEFORE TAX		**70.0**	53.5
Tax charge	7	**(4.8)**	(9.3)
PROFIT FOR THE YEAR / PERIOD ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**65.2**	44.2

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2013

		Group		**Company**	
	Note	**12 months ended 31 December 2013 £m**	9 months ended 31 December 2012 £m restated	**12 months ended 31 December 2013 £m**	9 months ended 31 December 2012 £m restated
Profit for the financial year / period		**65.2**	44.2	**63.7**	44.2
Other comprehensive expense:					
Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurement gains / (losses) on pension scheme assets and liabilities	21	**1.2**	(42.5)	**(1.3)**	(42.5)
Deferred tax (charge) / credit relating to components of other comprehensive income	7	**(2.8)**	9.4	**(2.0)**	9.4
Net other comprehensive expense for the year / period		**(1.6)**	(33.1)	**(3.3)**	(33.1)
Total comprehensive income for the year / period attributable to the equity holders of the parent company		**63.6**	11.1	**60.4**	11.1

BALANCE SHEETS
as at 31 December 2013

		Group		Company	
	Note	**31 December 2013 £m**	31 December 2012 £m	**31 December 2013 £m**	31 December 2012 £m
Non-current assets					
Property, plant and equipment	9	**1,287.7**	1,226.5	**1,285.2**	1,226.5
Intangible assets	10	**38.7**	40.0	**38.7**	40.0
Trade and other receivables	12	**-**	-	**22.0**	-
Derivative financial assets	16	**376.9**	397.8	**376.9**	397.8
Investments	17	**-**	-	**7.9**	0.1
		1,703.3	1,664.3	**1,730.7**	1,664.4
Current assets					
Inventories	11	**6.3**	6.3	**6.3**	6.3
Trade and other receivables	12	**54.9**	51.6	**52.2**	51.6
Derivative financial assets	16	**11.3**	11.1	**11.3**	11.1
Cash and cash equivalents	13	**31.8**	38.6	**31.8**	38.5
		104.3	107.6	**101.6**	107.5
TOTAL ASSETS		**1,807.6**	1,771.9	**1,832.3**	1,771.9
Current liabilities					
Trade and other payables	14	**84.5**	74.4	**85.5**	74.4
Current tax payable		**7.9**	22.6	**8.1**	22.6
Deferred income	15	**9.8**	9.1	**9.8**	9.1
Financial liabilities:					
Derivative financial liabilities	16	**11.3**	11.1	**11.3**	11.1
Other financial liabilities	18	**18.2**	18.3	**18.2**	18.3
Provisions	20	**1.8**	1.8	**1.3**	1.8
		133.5	137.3	**134.2**	137.3
Non-current liabilities					
Deferred tax liabilities	7	**75.4**	57.2	**69.3**	57.2
Deferred income	15	**275.9**	257.3	**275.9**	257.3
Financial liabilities:					
Derivative financial liabilities	16	**376.9**	397.8	**376.9**	397.8
Other financial liabilities	18	**572.1**	571.8	**572.1**	571.8
Provisions	20	**8.2**	7.5	**8.1**	7.5
Pension liability	21	**91.6**	140.2	**125.0**	140.2
		1,400.1	1,431.8	**1,427.3**	1,431.8
TOTAL LIABILITIES		**1,533.6**	1,569.1	**1,561.5**	1,569.1
NET ASSETS		**274.0**	202.8	**270.8**	202.8
Equity					
Share capital	22	**36.4**	36.4	**36.4**	36.4
Share premium	22	**24.4**	24.4	**24.4**	24.4
Capital redemption reserve	22	**6.1**	6.1	**6.1**	6.1
Accumulated profits	22	**207.1**	135.9	**203.9**	135.9
TOTAL EQUITY		**274.0**	202.8	**270.8**	202.8

The accounts were approved by the Board of directors and authorised for issue on 13 March 2014. They were signed on its behalf by:

Joe O'Mahony
Director

Date: 13 March 2014

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2013

Group

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m restated	Total £m restated
At 1 April 2012		**36.4**	**24.4**	**6.1**	**125.6**	**192.5**
Profit for the period		-	-	-	44.2	44.2
Net other comprehensive income for the period		-	-	-	(33.1)	(33.1)
Total comprehensive income for the period		-	-	-	11.1	11.1
Deferred tax relating to items charged in changes in equity	7	-	-	-	(0.8)	(0.8)
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 comprehensive income for the year		-	-	-	63.6	63.6
Gain on reapportionment of exiting pension scheme participant's assets	21	-	-	-	7.4	7.4
Deferred tax relating to gain on reapportionment of pension assets	7	-	-	-	(1.5)	(1.5)
Current tax relating to RPI index-linked swaps	7	-	-	-	16.2	16.2
Deferred tax relating to RPI index-linked swaps	7	-	-	-	(14.5)	(14.5)
At 31 December 2013		**36.4**	**24.4**	**6.1**	**207.1**	**274.0**

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2013

Company

	Note	Share capital £m	Share Premium £m	Capital redemption reserve £m	Accumulated profits £m restated	Total £m restated
At 1 April 2012		**36.4**	**24.4**	**6.1**	**125.6**	**192.5**
Profit for the period		-	-	-	44.2	44.2
Net other comprehensive income for the period		-	-	-	(33.1)	(33.1)
Total comprehensive income for the period		-	-	-	11.1	11.1
Deferred tax relating to items charged in changes in equity	7	-	-	-	(0.8)	(0.8)
At 1 January 2013		**36.4**	**24.4**	**6.1**	**135.9**	**202.8**
Profit for the year		-	-	-	63.7	63.7
Net other comprehensive expense for the year		-	-	-	(3.3)	(3.3)
Total comprehensive income for the year		-	-	-	60.4	60.4
Gain on reapportionment of exiting pension scheme participant's assets	21	-	-	-	7.4	7.4
Deferred tax relating to gain on reapportionment of pension assets	7	-	-	-	(1.5)	(1.5)
Current tax relating to RPI index-linked swaps	7	-	-	-	16.2	16.2
Deferred tax relating to RPI index-linked swaps	7	-	-	-	(14.5)	(14.5)
At 31 December 2013		**36.4**	**24.4**	**6.1**	**203.9**	**270.8**

CASH FLOW STATEMENTS
for the year ended 31 December 2013

	Note	Group 31 December 2013 £m	Group 31 December 2012 £m restated	Company 31 December 2013 £m	Company 31 December 2012 £m restated
Cash flows from operating activities					
Profit for the year / period		**65.2**	44.2	**63.7**	44.2
Adjustments for:					
Tax charge		**4.8**	9.3	**5.8**	9.3
Net finance costs	6	**42.4**	31.2	**42.7**	31.2
Depreciation of property, plant and equipment	9	**50.0**	35.8	**49.8**	35.8
Release of customers' contributions and grants	15	**(9.8)**	(6.9)	**(9.8)**	(6.9)
Amortisation of intangible assets	10	**4.4**	15.7	**4.4**	15.7
Contributions in respect of property, plant and equipment	15	**29.1**	19.1	**29.1**	19.1
Defined benefit pension charge less contributions paid	21	**(15.0)**	(11.5)	**(14.9)**	(11.5)
Net movement in provisions		**(0.1)**	-	**0.2**	-
Operating cash flows before movement in working capital		**171.0**	136.9	**171.0**	136.9
Increase in inventories		**-**	(1.1)	**-**	(1.1)
Increase in trade and other receivables		**(0.7)**	(19.5)	**(0.6)**	(19.5)
Increase / (decrease) in trade and other payables		**8.7**	(4.1)	**8.5**	(4.1)
Increase in working capital		**8.0**	(24.7)	**7.9**	(24.7)
Cash generated from operations		**179.0**	112.2	**178.9**	112.2
Interest received		**0.3**	0.2	**0.3**	0.2
Interest paid		**(37.5)**	(37.5)	**(37.5)**	(37.5)
Current taxes paid		**(9.7)**	(0.6)	**(10.0)**	(0.6)
Net cash flows from operating activities		**132.1**	74.3	**131.7**	74.3
Cash flows used in investing activities					
Purchase of property, plant and equipment		**(105.7)**	(77.7)	**(105.5)**	(77.7)
Purchase of intangible assets		**(3.1)**	(9.4)	**(3.1)**	(9.4)
Loan made to subsidiary company		**-**	-	**(22.0)**	-
Purchase of investment in subsidiary, net of cash acquired	17	**(7.4)**	-	**(7.8)**	(0.1)
Net cash flows used in investing activities		**(116.2)**	(87.1)	**(138.4)**	(87.2)
Cash flows used in financing activities					
Repayment of borrowings		**(22.7)**	-	**-**	-
Net cash flows used in financing activities		**(22.7)**	-	**-**	-
Net decrease in cash and cash equivalents		**(6.8)**	(12.8)	**(6.7)**	(12.9)
Cash and cash equivalents at beginning of year / period		**38.6**	51.4	**38.5**	51.4
Cash and cash equivalents at end of year / period	13	**31.8**	38.6	**31.8**	38.5

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

NOTES TO THE ACCOUNTS

1. General Information

Northern Ireland Electricity Limited (NIE or the Company) is a limited company incorporated and domiciled in Northern Ireland. The Company's registered office address is 120 Malone Road, Belfast, BT9 5HT. The principal activities of the Company are described in the Operating Environment section of the Group Strategic Report.

On 1 October 2013, NIE acquired 100% of the share capital of NIE Powerteam Limited. On 16 December 2013, NIE Powerteam Limited changed its name to NIE Networks Services Limited. The Company has chosen to consolidate the newly acquired entity in 2013, NIE Networks Services Limited, using the pooling of interests method from the date of acquisition with no restatement of prior period comparatives.

The accounts have been prepared in accordance with IFRS as adopted by the EU and applied in accordance with the provisions of the Companies Act 2006. The accounts also reflect the adoption of new standards and interpretations effective for the year. The prior period has been restated for the impact of the retrospective application of IAS 19 Employee Benefits (revised 2011) as outlined in note 2. The accounts are presented in Sterling (£) with all values rounded to the nearest £100,000 except where otherwise indicated.

2. Accounting Policies

Adoption of new and revised accounting standards and interpretations

The following amendments to existing standards and interpretations, effective from 1 January 2013, which have had an impact on the Group's accounts are outlined below:

IAS 19 Employee Benefits (revised 2011)
The revision to IAS19 requires recognition of interest income on scheme assets calculated by applying the discount rate to the scheme assets at the opening balance sheet date. This calculation of interest income replaces expected return on scheme assets which was calculated by applying expected rates of return during the period to the scheme assets at the opening balance sheet date. The revised standard has also required pension scheme administration charges, which were previously recognised within net interest on defined benefit liability, to be recognised within operating costs.

This standard has been applied retrospectively as prescribed by the revised standard. The impact of the application of the revised standard on the current year and prior period is shown in the table below:

	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m
Changes to Group Income Statement:		
Increase in operating costs	**(1.2)**	(0.4)
Increase in net interest on defined benefit liability	**(3.6)**	(0.2)
Decrease in tax charge	**1.0**	0.2
Decrease in profit for the year / period	**(3.8)**	**(0.4)**
Changes to Group Statement of Comprehensive Income:		
Increase in remeasurements	**4.8**	0.6
Increase in tax charge relating to remeasurements	**(1.0)**	(0.2)
Net other comprehensive income for the year / period	**3.8**	**0.4**
Total net comprehensive income for the year / period	**-**	**-**

The application of the revised standard has no impact on total equity or on the pension liability reported in the balance sheet. As a result, the Group has not included comparative information in respect of the opening statement of balance sheet position as at 1 January 2012.

2. Accounting Policies (continued)

Adoption of new and revised accounting standards and interpretations *(continued)*

IFRS 13 Fair Value Measurement
IFRS 13 provides guidance on how to measure fair value of financial assets and liabilities and outlines specific disclosure requirements. The standard has not impacted the fair value measurements but has resulted in additional disclosures on fair value which are provided in note 16 to accounts.

IAS 1 Presentation of Items of Other Comprehensive Income - amendments to IAS 1
The amendment to IAS 1 requires grouping of items presented in the Group Statement of Other Comprehensive Income specifically with respect to whether items may be reclassified to the income statement in subsequent periods. The amendment to the standard has affected presentation only in the accounts.

The following amendments to existing standards and interpretations were effective for the period, but did not have a material impact on the Group's accounts:

IFRS 1 (amendment)	First time adoption for government loans (effective for accounting periods beginning on or after 1 January 2013)
IFRS 7 (amendments)	Offsetting of financial assets and financial liabilities (effective for accounting periods beginning on or after 1 January 2013)
IFRIC 20	Production phase stripping costs of a surface mine (effective for accounting periods beginning on or after 1 January 2013)
Improvements to IFRSs 2009-2011	(effective for accounting periods beginning on or after 1 January 2013)

At the date of authorisation of these accounts, the following standards and interpretations, which have not been applied in the accounts, were in issue but not yet effective:

IFRS 10	Consolidated Financial Statements (effective for accounting periods beginning on or after 1 January 2014)
IFRS 11	Joint Arrangements (effective for accounting periods beginning on or after 1 January 2014)
IFRS 12	Disclosure of Interests in Other Entities (effective for accounting periods beginning on or after 1 January 2014)
IAS 27 (revised)	Reissued as *Separate Financial Statements* (as amended 2011) (effective for accounting periods beginning on or after 1 January 2014)
IAS 28	Reissued as *Investments in Associates and Joint Ventures* (as amended 2011) (effective for accounting periods beginning on or after 1 January 2014)
IAS 32	Offsetting Financial Assets and Financial Liabilities (effective for accounting periods beginning on or after 1 January 2014)
IAS 36	Impairment of Assets – recoverable amount disclosures for non-financial assets (amendments) (effective for accounting periods beginning on or after 1 January 2014)
IAS 39	Financial Instruments: Recognition and Measurement – Novation of derivatives and Continuation of Hedge Accounting (amendments) (effective for accounting periods beginning on or after 1 January 2014)
Investment entities	(Amendments to IFRS 10, IFRS 12, IAS 27) (effective for accounting periods beginning on or after 1 January 2014)

None of the standards listed above are expected to have a material impact on the accounts.

2. Accounting Policies (continued)

The principal accounting policies are set out below.

Basis of Preparation – Going Concern
The Group's business activities including financial risk management along with the factors likely to affect its future development are set out within the Financial Review and Operational Review sections of the Group Strategic Report.

As described in the Group Strategic Report, on the basis of their assessment of the Group's financial position, which included a review of the Group's projected funding requirements for a period of 12 months from the date of approval of the accounts, the directors have a reasonable expectation that the Group will have adequate financial resources for the 12 month period and accordingly continue to adopt the going concern basis in preparing the report and accounts.

Basis of consolidation
The Group accounts consolidate the accounts of Northern Ireland Electricity Limited (the Company) and entities controlled by the Company (its subsidiaries) including the newly acquired subsidiary, NIE Networks Services Limited. Subsidiaries are consolidated from the day on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The directors have chosen to consolidate the accounts of NIE Networks Services Limited under the pooling of interests method from the date of acquisition with no restatement of prior period comparatives.

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

Purchases of controlling interests in subsidiaries from entities under common control
Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method from the date of acquisition. Accordingly, financial information in the accounts for the periods prior to pooling under common control is not restated.

The assets and liabilities of the subsidiary transferred under common control are recorded in these accounts at the historical cost of the controlling entity (the 'predecessor') or at the carrying values reported in the subsidiary's own accounts where appropriate. Related goodwill inherent in the predecessor's original acquisition is also recorded in the accounts. Any difference between the total book value of net assets, including the predecessor's goodwill, and the consideration paid is accounted for in the consolidated accounts as an adjustment to equity.

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

Foreign currency translation
The functional and presentational currency of the Group and its subsidiaries is sterling (£).

Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates prevailing at the balance sheet date are recognised in the income statement.

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

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

Infrastructure assets - up to 40 years
Non-operational buildings - freehold and long leasehold - up to 50 years
Fixtures and equipment - up to 25 years
Vehicles and mobile plant – up to 5 years

2. Accounting Policies (continued)

Property, plant and equipment *(continued)*

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

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

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

Computer software

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

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

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

Inventories

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

Financial instruments

Cash and cash equivalents

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

Loans and receivables

Loans and receivables are initially recorded at fair value. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Interest bearing loans and overdrafts

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

Trade and other receivables

Trade receivables do not carry any interest and are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made when there is objective evidence that the asset is impaired. Balances are written off when the probability of recovery is assessed as being remote.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Derivative financial instruments

Derivatives that are not designated as hedging instruments are accounted for at ‘fair value through profit or loss’. These derivatives are carried in the balance sheet at fair value, with changes in fair value recognised in net finance costs in the income statement.

2. Accounting Policies (continued)

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

Operating lease contracts
Leases are classified as operating lease contracts whenever the terms of the lease do not transfer substantially all the risks and benefits of ownership to the lessee.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, exclusive of value added tax and other sales related taxes.

The following specific recognition criteria must also be met before revenue is recognised:

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

Use of System and PSO revenue
Revenue is recognised on the basis of units distributed during the period. Revenue includes an assessment of the volume of electricity distributed, estimated using historical consumption patterns.

Transmission service revenue
Revenue is recognised in accordance with the schedule of entitlement set by the Utility Regulator for each tariff period.

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

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

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

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

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

2. Accounting Policies (continued)

Tax *(continued)*

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

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

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

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

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

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

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

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

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

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

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

Exceptional items
The Group presents as exceptional items on the face of the income statement those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the period, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

2. Accounting Policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

Pensions and other post employment benefits
Employees of the Group are entitled to membership of NIEPS which has both defined benefit and defined contribution arrangements. The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 21.

Unbilled debt
Revenue includes an assessment of the volume of electricity distributed, estimated using historical consumption patterns. A corresponding receivable in respect of unbilled consumption is recognised within trade receivables.

Fair value measurement
The measurement of the Group's derivative financial instruments are based on a number of judgmental factors and assumptions which by necessity are not based on observable inputs. These have been classified as Level 2 financial instruments in accordance with IFRS13. Further detail is provided in note 16.

3. Revenue and Operating Profit

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

	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m restated
Revenue:		
Sales revenue	**248.7**	195.4
Release of customer contributions from deferred income	**9.3**	6.5
	258.0	201.9
Interest receivable	**0.3**	0.2
	258.3	202.1

During the year, two customers accounted for sales revenue totalling £152.1m (9 months ended 31 December 2012 – one customer accounted for £84.4m).

Geographical information
The following table provides an analysis of the Group's external revenue based on the location of customers.

12 months ended 31 December 2013			9 months ended 31 December 2012		
UK £m	**RoI £m**	**Total £m**	UK £m	RoI £m	Total £m
238.9	**19.1**	**258.0**	187.3	14.6	201.9

The majority of Republic of Ireland (RoI) revenue relates to use of system charges to suppliers based in the RoI which supply energy to customers based in Northern Ireland.

The Group's assets are all located within the United Kingdom.

4. Operating Costs

Operating costs are analysed as follows:

	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m restated
Employee costs (note 5)	**14.6**	9.6
Depreciation and amortisation	**54.4**	51.5
Other operating charges	**76.6**	56.1
	145.6	117.2

Operating costs include:		
Depreciation charge on property, plant and equipment	**50.0**	35.8
Amortisation of intangible assets	**4.4**	15.7
Minimum payments due under operating leases	**0.4**	0.5
Cost of inventories recognised as an expense	**1.4**	0.9

4. Operating Costs (continued)

Operating costs include:

	12 months ended 31 December 2013	9 months ended 31 December 2012
Auditors' remuneration	**£'000**	£'000
Fees payable to the Group and Company auditors for the audit of the accounts	**26**	26
Fees payable to the Group and Company auditors for other services:		
The audit of the company's subsidiaries pursuant to legislation	**13**	3
Audit related assurance services	**46**	14
Tax compliance services	**3**	3
Tax advisory services	**1**	1

5. Employees

Employee costs

	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m
Salaries	**14.5**	10.5
Social security costs	**1.4**	1.0
Pension costs		
- defined contribution plans	**0.7**	0.4
- defined benefit plans	**4.0**	1.9
	20.6	13.8
Less: amounts capitalised to property, plant and equipment and intangible assets	**(6.0)**	(4.2)
Charged to the income statement	**14.6**	9.6

	Average during the year / period		Actual headcount as at	
	12 months ended 31 December 2013 Number	9 months ended 31 December 2012 Number	31 December 2013 Number	31 December 2012 Number
Management, administration and support	**205**	191	**307**	186
Electrical services	**342**	110	**978**	110
Employee numbers	**547**	301	**1,285**	296

The employee numbers stated above include NIE Networks Services Limited's employees for the year to 31 December 2013 (see note 17).

Directors' emoluments

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

	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m
Emoluments in respect of qualifying services	**0.5**	0.4

No amounts were paid to directors in respect of long term incentive plans. The Company does not operate any share schemes, therefore no directors exercised share options or received shares under long-term incentive schemes during the year or the previous period.

5. Employees (continued)

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

	12 months ended 31 December 2013 £'000	9 months ended 31 December 2012 £'000
Emoluments (for the 12 months ended / 9 months ended)	**273**	215
Total accrued pension at 31 December (per annum)	**-**	-

	12 months ended 31 December 2013 Number	9 months ended 31 December 2012 Number
Members of a defined benefit pension scheme	**1**	1
Members of a defined contribution scheme	**1**	1

Aggregate contributions by the Company to defined contribution pension schemes in respect of the directors during the year was £55,000 (9 months ended 31 December 2012 - £41,000).

6. Net Finance Costs

	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m restated
Interest receivable:		
Bank interest receivable	**0.3**	0.2
Interest payable:		
£175m bond	**(12.0)**	(9.1)
£400m bond	**(25.5)**	(19.1)
Interest rate swaps	**-**	-
	(37.5)	(28.2)
Less: capitalised interest	**0.3**	0.4
Total interest charged to the income statement	**(37.2)**	(27.8)
Other finance costs:		
Amortisation of financing charges	**(0.2)**	(0.1)
Net loss on financial assets and liabilities at fair value charged to the income statement	**-**	-
Total finance costs	**(37.4)**	(27.9)
Net pension interest cost	**(5.3)**	(3.5)
Net finance costs	**(42.4)**	(31.2)

Interest charged to the balance sheet during the period was capitalised using a weighted average interest rate of 6.63% (12 months ended 31 December 2012 - 6.63%).

7. Tax Charge

(i) Analysis of charge during the year / period

Group Income Statement	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m restated
Current tax charge		
UK corporation tax at 23.25% (2012 - 24%)	**11.9**	11.9
Corporation tax overprovided in previous years	**(0.5)**	-
Total current income tax	**11.4**	11.9
Deferred tax credit		
Origination and reversal of temporary differences in current year / period	**4.3**	1.2
Origination and reversal of temporary differences relating to prior years	**2.2**	-
Effect of decreased tax rate on opening liability	**(13.1)**	(3.8)
Total deferred tax credit	**(6.6)**	(2.6)
Total tax charge	**4.8**	9.3

Tax relating to items charged in other comprehensive income

Deferred tax		
Deferred tax charge / (credit) relating to components of other comprehensive income	**0.2**	(9.7)
Effect of decreased tax rate on opening asset	**2.6**	0.3
	2.8	(9.4)

Tax relating to items charged / (credited) to changes in equity

Deferred tax		
Effect of decreased tax rate on opening asset	**-**	0.8
Charge relating to gain on reapportionment of pension assets (see note 21)	**1.5**	-
Charge relating to RPI index-linked swaps	**14.5**	-
Current tax		
Credit relating to RPI index-linked swaps	**(16.2)**	-
	(0.2)	0.8

The deferred tax charge and current tax credit relating to RPI index-linked swaps taken to changes in equity result from the immediate crystallisation of losses on swaps recognised in March 2011 treated as deductible for corporation tax purposes in prior years.

(ii) Reconciliation of total tax charge

The tax charge in the Group Income Statement for the year is lower than the standard rate of corporation tax in the UK of 23.25% (2012 - 24%). The differences are reconciled below:

	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m restated
Accounting profit before tax charge	**70.0**	53.5
Accounting profit multiplied by the UK standard rate of corporation tax of 23.25% (2012 - 24%)	**16.3**	12.8
Tax effect of:		
Impact of deferred tax at 20% (2012 – 23%)	**(13.6)**	(3.9)
Other permanent differences	**0.4**	0.4
Tax underprovided in previous years	**1.7**	-
Tax charge for the year / period	**4.8**	9.3

7. Tax Charge (continued)

(iii) Deferred tax

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

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Deferred tax assets				
Pension liability	**18.3**	32.2	**25.0**	32.2
Interest rate swaps	**-**	47.0	**-**	47.0
Other temporary differences	**1.3**	1.3	**0.9**	1.3
	19.6	80.5	**25.9**	80.5
Deferred tax liabilities				
Accelerated capital allowances	**(94.1)**	(106.3)	**(94.3)**	(106.3)
Interest rate swaps	**-**	(30.3)	**-**	(30.3)
Held-over gains on property disposals	**(0.9)**	(1.1)	**(0.9)**	(1.1)
	(95.0)	(137.7)	**(95.2)**	(137.7)
Net deferred tax liability	**(75.4)**	(57.2)	**(69.3)**	(57.2)

Deferred tax has been calculated at 20% as at 31 December 2013 reflecting future reductions in the corporation tax rate enacted at the balance sheet date.

The movement in the deferred tax liability during the year includes deferred tax liabilities transferred on the acquisition of NIE Networks Services Limited (see note 17).

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

	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m restated
Accelerated capital allowances	**(12.2)**	(5.9)
Interest rate swaps	**2.2**	1.4
Temporary differences in respect of pensions	**2.8**	1.8
Other temporary differences	**0.6**	0.1
Deferred tax credit	**(6.6)**	(2.6)

8. Profit for the Financial Period

The profit dealt with in the accounts of the Company is £63.7m (9 months ended 31 December 2012 - £44.2m restated). No separate income statement is presented for the Company as permitted by Section 408 of the Companies Act 2006.

9. Property, Plant and Equipment

Group	Infrastructure assets £m	Non-operational land and buildings £m	Fixtures and equipment £m	Vehicles and mobile plant £m	Total £m
Cost:					
At 1 April 2012	1,824.1	5.1	52.0	-	1,881.2
Additions	74.1	-	1.8	-	75.9
At 31 December 2012	1,898.2	5.1	53.8	-	1,957.1
Additions	103.6	-	4.4	0.7	108.7
Acquisition of subsidiary under common control (see note 17)	-	-	5.5	7.1	12.6
At 31 December 2013	**2,001.8**	**5.1**	**63.7**	**7.8**	**2,078.4**
Depreciation:					
At 1 April 2012	652.3	1.3	41.2	-	694.8
Charge for the period	33.6	0.1	2.1	-	35.8
At 31 December 2012	685.9	1.4	43.3	-	730.6
Acquisition of subsidiary under common control (see note 17)	-	-	4.8	5.3	10.1
Charge for the year	46.9	0.1	2.9	0.1	50.0
At 31 December 2013	**732.8**	**1.5**	**51.0**	**5.4**	**790.7**
Net book value:					
At 31 March 2012	1,171.8	3.8	10.8	-	1,186.4
At 31 December 2012	1,212.3	3.7	10.5	-	1,226.5
At 31 December 2013	**1,269.0**	**3.6**	**12.7**	**2.4**	**1,287.7**

Infrastructure assets include amounts in respect of assets under construction of £30.8m (2012 - £30.5m). The net book value of fixtures and equipment include amounts in respect of assets under construction of £0.9m (2012 - £nil).

9. Property, Plant and Equipment (continued)

Company	**Infrastructure assets £m**	**Non-operational land and buildings £m**	**Fixtures and equipment £m**	**Total £m**
Cost:				
At 1 April 2012	1,824.1	5.1	52.0	1,881.2
Additions	74.1	-	1.8	75.9
At 31 December 2012	1,898.2	5.1	53.8	1,957.1
Additions	104.2	-	4.3	108.5
At 31 December 2013	**2,002.4**	**5.1**	**58.1**	**2,065.6**
Depreciation:				
At 1 April 2012	652.3	1.3	41.2	694.8
Charge for the period	33.6	0.1	2.1	35.8
At 31 December 2012	685.9	1.4	43.3	730.6
Charge for the year	46.9	0.1	2.8	49.8
At 31 December 2013	**732.8**	**1.5**	**46.1**	**780.4**
Net book value:				
At 31 March 2012	1,171.8	3.8	10.8	1,186.4
At 31 December 2012	1,212.3	3.7	10.5	1,226.5
At 31 December 2013	**1,269.6**	**3.6**	**12.0**	**1,285.2**

Infrastructure assets include amounts in respect of assets under construction of £30.8m (2012 - £30.5m). The net book value of fixtures and equipment include amounts in respect of assets under construction of £0.9m (2012 - £nil).

10. Intangible Assets

Computer software	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Cost:				
At the beginning of the year / period	**98.7**	90.8	**98.7**	90.8
Acquisition of subsidiary under common control (see note 17)	**0.1**	-	**-**	-
Additions acquired externally	**3.1**	7.9	**3.1**	7.9
At the end of the year / period	**101.9**	98.7	**101.8**	98.7
Amortisation / impairment:				
At the beginning of the year / period	**58.7**	43.0	**58.7**	43.0
Acquisition of subsidiary under common control (see note 17)	**0.1**	-	**-**	-
Amortisation charge for the year / period	**4.4**	15.7	**4.4**	15.7
At the end of the year / period	**63.2**	58.7	**63.1**	58.7
Net book value:				
At the beginning of the year / period	**40.0**	47.8	**40.0**	47.8
At the end of the year / period	**38.7**	40.0	**38.7**	40.0

Software assets include amounts in respect of assets under construction amounting to £3.9m (2012 - £0.9m).

The amortisation charge during the period to 31 December 2012 included £9.8m in relation to accelerated charges to fully write down old IT systems replaced by new systems during 2012.

11. Inventories

Group and Company	**2013**	2012
	£m	£m
Materials and consumables	**5.3**	5.5
Work-in-progress	**1.0**	0.8
	6.3	6.3

12. Trade and Other Receivables

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Current				
Trade receivables (including unbilled consumption)	**47.6**	42.0	45.5	42.0
Other receivables	**0.6**	0.8	0.6	0.8
Amounts owed by group undertakings	**3.3**	3.2	3.3	3.2
Prepayments and accrued income	**3.4**	5.6	2.8	5.6
	54.9	51.6	52.2	51.6
Non-current				
Amounts owed by group undertakings	**-**	-	22.0	-

Non-current amounts owed by group undertakings to the Company reflect a loan made to NIE Networks Services Limited during the year. The loan, maturing on 30 April 2015, carries interest at LIBOR plus a margin of 1.2%.

The largest trade receivable at the year end, due from one customer, is £10.0m (2012 - £10.6m).

Trade receivables are stated net of a provision of £0.6m (2012 - £0.5m) for estimated irrecoverable amounts based on past default experience.

12. Trade and Other Receivables (continued)

Group and Company	**2013 £m**	2012 £m
At the beginning of the year / period	**0.5**	0.5
Increase in provision	**0.2**	-
Bad debts written off	**(0.1)**	-
At the end of the year / period	**0.6**	0.5

The above provision includes £0.4m (2012 - £0.2m) in respect of individual balances impaired based on the age of debt and past default experience. There are no provisions for estimated irrecoverable amounts included in 'amounts owed by group undertakings' which are all within credit terms. Further details on credit risk are included in the Financial Risk Management section in the Group Strategic Report.

The following shows an aged analysis of current trade receivables:

	Group		**Company**	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Within credit terms:				
Current	**43.9**	39.6	**41.8**	39.6
Past due but not impaired:				
Less than 30 days	**2.0**	1.3	**2.0**	1.3
30 - 60 days	**0.2**	0.3	**0.2**	0.3
60 - 90 days	**0.2**	0.2	**0.2**	0.2
+ 90 days	**1.3**	0.6	**1.3**	0.6
	47.6	42.0	**45.5**	42.0

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

13. Cash and Cash Equivalents

	Group		**Company**	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Cash at bank and in hand	**3.8**	7.6	3.8	7.5
Short-term deposits	**28.0**	31.0	28.0	31.0
	31.8	38.6	31.8	38.5

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months' depending on the immediate cash requirements of the Group and Company, and earn interest at the respective short-term deposit rates. The directors consider that the carrying amount of cash and cash equivalents equates to fair value.

14. Trade and Other Payables

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Trade payables	**13.4**	10.5	**12.9**	10.5
Payments received on account	**35.6**	28.5	**35.6**	28.5
Amounts owed to group undertakings	**1.8**	9.8	**9.0**	9.8
Tax and social security	**9.6**	8.1	**8.8**	8.1
Accruals	**24.1**	17.5	**19.2**	17.5
	84.5	74.4	**85.5**	74.4

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

15. Deferred Income

Group and Company	**Grants £m**	**Customers' contributions £m**	**Total £m**
Current	0.5	8.3	8.8
Non-current	7.6	237.8	245.4
Total at 1 April 2012	**8.1**	**246.1**	**254.2**
Receivable	0.2	18.9	19.1
Released to income statement	(0.4)	(6.5)	(6.9)
Current	**0.5**	**8.6**	**9.1**
Non-current	**7.4**	**249.9**	**257.3**
Total at 31 December 2012	**7.9**	**258.5**	**266.4**
Receivable	-	29.1	29.1
Released to income statement	(0.5)	(9.3)	(9.8)
Current	**0.5**	**9.3**	**9.8**
Non-current	**6.9**	**269.0**	**275.9**
Total at 31 December 2013	**7.4**	**278.3**	**285.7**

16. Derivative Financial Instruments

Group and Company - Interest rate swaps	2013 £m	2012 £m
Current assets	**11.3**	11.1
Non-current assets	**376.9**	397.8
	388.2	408.9
Current liabilities	**(11.3)**	(11.1)
Non-current liabilities	**(376.9)**	(397.8)
	(388.2)	(408.9)

Since December 2010, the Company has a £550m portfolio of RPI linked interest rate swaps. Under these swap arrangements, the Company pays an average fixed rate of interest of 2.38% indexed by RPI and receives a variable rate of interest based on LIBOR. RPI accretion is accounted for as interest in the Group Income Statement. The swaps have maturity dates between 2026 and 2036 (average maturity 2031) and have mandatory break dates on 22 December 2015.

At 31 December 2013 the fair value of the above interest rate swaps was a liability of £388.2m (2012 - £408.9m). During the year, gains in respect of movements in the fair value of the swaps of £36.7m are included within finance costs in the income statement (2012 – losses of £12.5m).

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.

On 1 April 2011, the Company entered into interest rate swap arrangements with ESBNI which have identical matching terms to the above swaps. Under the swap arrangements with ESBNI, the Company receives an average fixed rate interest of 2.38% indexed by RPI and pays a variable rate of interest based on LIBOR. RPI accretion is accounted for as interest in the Group Income Statement. The swaps have maturity dates between 2026 and 2036 (average maturity 2031) and have mandatory break dates on 22 December 2015.

At 31 December 2013, the fair value of interest rate swaps was an asset of £388.2m (2012 - £408.9m). During 2013, losses in respect of movements in the fair value of the swaps of £36.7m are included within the income statement (2012 – gains of £12.5m).

The Company uses the hierarchy as set out in IFRS 13: Fair Value Measurement. All assets and liabilities for which fair value is disclosed are categorised within the fair value hierarchy described as follows:

Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is not observable.

The fair value of interest rate swaps as at 31 December 2013 is considered by the Company to fall within the level 2 fair value hierarchy. There have been no transfers between level 1 or 3 of the hierarchy during the year.

Independent valuations are used in measuring the interest rate swaps and validated using the present valuation of expected cash flows using constructed zero-coupon discount curve.

The zero-coupon curve is constructed using the interest rate yield curve of the relevant currency.

Future cash flows are estimated using expected RPI benchmark levels as well as expected LIBOR rate sets.

16. Derivative Financial Instruments (continued)

An increase / (decrease) of 0.5% in interest rates would decrease / (increase) the fair value of interest rate swap liabilities by £59.5m / (£64.9m) (2012 - £64.0m / (£70.2m)). However, the swap arrangements entered into with ESBNI on 1 April 2011 hedge the Company's cashflows in respect of these liabilities and therefore, an increase / (decrease) of 0.5% in interest rates would increase / (decrease) the fair value of the interest rate swap assets by £59.5m / (£64.9m) (2012 - £64.0m / (£70.2m)) and thereby offset the exposure to the swap liabilities. These sensitivities are based on an assessment of market rate movements during the period and each is considered to be a reasonably possible range.

Further details on interest rate risk are included in the Financial Risk Management section in the Group Strategic Report.

17. Investments

Company – Investment in subsidiaries

	2013 £m	2012 £m
Cost:		
At the beginning of the year / period	**0.1**	-
Acquisition of subsidiary	**7.8**	-
Ordinary shares fully paid up	**-**	0.1
At the end of the year / period	**7.9**	0.1

All of the Company's subsidiaries are incorporated in the United Kingdom.

In order to comply with the conditions of the European Commission's certification of the transmission arrangements in Northern Ireland under Article 9(9) of Directive 2009/72/EC (the IME 3 Directive), the Company acquired 100% of the share capital of NIE Powerteam Limited from ESBNI Limited, the immediate parent company of the group, on 1 October 2013. On 16 December 2013, NIE Powerteam Limited changed its name to NIE Networks Services Limited.

The investment of £7,760,119 comprised 15,000,000 £1 ordinary shares fully paid up. A summarised balance sheet at the date of acquisition is as follows:

Balance sheet of NIE Networks Services Limited at acquisition date	£m
Property, plant and equipment	2.5
Pension asset	30.5
Trade and other receivables	7.1
Current tax asset	0.2
Cash and cash equivalents	0.4
Total assets	**40.7**
Trade and other payables	3.7
Deferred tax liability	5.9
Financial liability – other	22.7
Provisions	0.6
Total liabilities	**32.9**
Net assets acquired	**7.8**

The principal activity of NIE Networks Services Limited during the year was to provide electrical infrastructure construction and refurbishment and other managed services to the Company. As NIE Networks Services Limited provides services to the Company, revenue on consolidation is £nil.

On 17 September 2012, the Company paid the remaining £0.75 per ordinary share for its 100% investment in NIE Finance PLC bringing the total investment value to £50,000 at 31 December 2012. The principal activity of NIE Finance PLC during the year and prior period was to continue to act as the issuer of the £400m bond issued on 2 June 2011. Further details of the bond issue are included in note 18.

17. Investments (continued)

Dormant subsidiaries
The Company holds 100% of the share capital of NIE Generation Limited, NIE Limited, NIE Power Limited and NIE Enterprises Limited. These companies are dormant and the carrying value of these investments as at 31 December 2013 was £nil (2012 - £nil). Applications have been made to strike off NIE Power Limited and NIE Enterprises Limited from the Register of Companies.

18. Financial Liabilities

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Current				
Interest payable on £175m bond	**3.4**	3.4	**3.4**	3.4
Interest payable on £400m bond	**14.8**	14.9	**-**	-
Interest payable to group undertakings	**-**	-	**14.8**	14.9
	18.2	18.3	**18.2**	18.3
Non-current				
£175m bond	**174.0**	173.9	**174.0**	173.9
£400m bond	**398.1**	397.9	**-**	-
Amounts owed to group undertakings	**-**	-	**398.1**	397.9
	572.1	571.8	**572.1**	571.8

Loans and other borrowings outstanding are repayable as follows:

Group and Company	**2013 £m**	2012 £m
In one year or less or on demand	**18.2**	18.3
Between two and five years	**174.0**	-
In more than five years	**398.1**	571.8
	590.3	590.1

The Group and Company's objectives, policies and strategies in respect of financial liabilities and capital management are disclosed in the Financial Review section of the Group Strategic Report.

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

- the £175m bond is repayable in 2018 and carries a fixed rate of interest of 6.875%. The bond issue incurred £2.6m of costs associated with raising finance;
- on 2 June 2011, the Group issued a 15 year £400m bond which is repayable in 2026 and carries a fixed rate of interest of 6.375%. The bond issue incurred £2.1m of costs associated with raising finance.

On 2 June 2011, NIE Finance PLC granted a back-to-back loan of £400m to the Company, which was issued net of £2.1m of costs associated with raising finance. Interest is paid on the loan at a fixed rate of 6.375%.

The £175m and £400m bonds had fair values at 31 December 2013 of £201.4m (2012 - £206.9m) and £462.0m (2012 - £476.6m) respectively, based on current market prices. The Company's £400m back-to-back loan had a fair value at 31 December 2013 of £462.0m (2012 - £476.6m) based on the fair value of the £400m bond. The directors consider that the carrying amount of other financial liabilities equate to fair value.

The £175m bond, £400m bond, and the Company's related back-to-back loan with NIE Finance PLC carry interest at fixed rates. Therefore at 31 December 2013 the Group and Company were not exposed to movements in interest rates.

The fair value of bonds as at 31 December 2013 is considered by the Company to fall within the level 1 fair value hierarchy (defined within note 16). There have been no transfers between levels in the hierarchy during the year.

18. Financial Liabilities (continued)

The tables below summarise the maturity profile of the Group's financial liabilities (including trade and other payables) based on contractual undiscounted payments.

At 31 December 2013 **Group**	On demand £m	Within 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	**Total** **£m**
£175m bond (including interest payable)	-	-	12.0	223.1	-	**235.1**
£400m bond (including interest payable)	-	-	25.5	102.0	604.0	**731.5**
Trade and other payables	35.6	39.3	-	-	-	**74.9**
Interest rate swap liabilities	-	-	11.3	376.9	-	**388.2**
	35.6	**39.3**	**48.8**	**702.0**	**604.0**	**1,429.7**

At 31 December 2012 Group	On demand £m	Within 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
£175m bond (including interest payable)	-	-	12.0	48.1	187.0	247.1
£400m bond (including interest payable)	-	-	25.5	102.0	629.5	757.0
Trade and other payables	28.5	37.8	-	-	-	66.3
Interest rate swap liabilities	-	-	11.1	397.8	-	408.9
	28.5	37.8	48.6	547.9	816.5	1,479.3

The tables below summarise the maturity profile of the Company's financial liabilities (including trade and other payables) based on contractual undiscounted payments.

At 31 December 2013 **Company**	On demand £m	Within 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	**Total** **£m**
£175m bond (including interest payable)	-	-	12.0	223.1	-	**235.1**
Amounts owed to group undertakings	-	-	25.5	102.0	604.0	**731.5**
Trade and other payables	35.6	41.1	-	-	-	**76.7**
Interest rate swap liabilities	-	-	11.3	376.9	-	**388.2**
	35.6	**41.1**	**48.8**	**702.0**	**604.0**	**1,431.5**

At 31 December 2012 Company	On demand £m	Within 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	**Total** £m
£175m bond (including interest payable)	-	-	12.0	48.1	187.0	247.1
Amounts owed to group undertakings	-	-	25.5	102.0	629.5	757.0
Trade and other payables	28.5	37.8	-	-	-	66.3
Interest rate swap liabilities	-	-	11.1	397.8	-	408.9
	28.5	37.8	48.6	547.9	816.5	1,479.3

19. Analysis of Net Debt

Group	At 1 January 2013 £m	Cash flow £m	Non cash movement £m	At 31 December 2013 £m
Cash and cash equivalents	**38.6**	(6.8)	-	**31.8**
Interest payable on £175m bond	**(3.4)**	12.0	(12.0)	**(3.4)**
Interest payable on £400m bond	**(14.9)**	25.5	(25.4)	**(14.8)**
£175m bond	**(173.9)**	-	(0.1)	**(174.0)**
£400m bond	**(397.9)**	-	(0.2)	**(398.1)**
	(551.5)	30.7	(37.7)	**(558.5)**

Company	At 1 April 2013 £m	Cash Flow £m	Non cash movement £m	At 31 December 2013 £m
Cash and cash equivalents	**38.5**	(6.7)	-	**31.8**
Interest payable on £175m bond	**(3.4)**	12.0	(12.0)	**(3.4)**
Amounts owed to group undertakings	**(397.9)**	-	(0.2)	**(398.1)**
Interest payable to group undertakings	**(14.9)**	25.5	(25.4)	**(14.8)**
£175m bond	**(173.9)**	-	(0.1)	**(174.0)**
	(551.6)	30.7	(37.7)	**(558.5)**

20. Provisions

Group	Environment £m	Liability and damage claims £m	Other £m	Total £m
Current	0.4	1.2	0.2	1.8
Non-current	4.6	2.9	-	7.5
Total at 1 January 2013	**5.0**	**4.1**	**0.2**	**9.3**
Acquisition of subsidiary under common control (see note 17)	-	0.6	-	0.6
Applied in the year	-	(0.6)	(0.1)	(0.7)
Increase in provisions	0.2	0.6	-	0.8
Release to income statement	-	-	-	-
Current	**0.6**	**1.1**	**0.1**	**1.8**
Non-current	**4.6**	**3.6**	**-**	**8.2**
Total at 31 December 2013	**5.2**	**4.7**	**0.1**	**10.0**

Company	Environment £m	Liability and damage claims £m	Other £m	Total £m
Current	0.4	1.2	0.2	1.8
Non-current	4.6	2.9	-	7.5
Total at 1 January 2013	**5.0**	**4.1**	**0.2**	**9.3**
Applied in the year	-	(0.5)	(0.1)	(0.6)
Increase in provisions	0.2	0.5	-	0.7
Release to income statement	-	-	-	-
Current	**0.6**	**0.6**	**0.1**	**1.3**
Non-current	**4.6**	**3.5**	**-**	**8.1**
Total at 31 December 2013	**5.2**	**4.1**	**0.1**	**9.4**

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

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

21. Pension Commitments

Most employees of the Group are members of Northern Ireland Electricity Pension Scheme (NIEPS). This has two sections: 'Options' which is a money purchase arrangement whereby the Group generally matches the members' contributions up to a maximum of 6% 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.

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

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the scheme was carried out by a qualified actuary as at 31 March 2011 and showed a deficit of £150m. The company is paying deficit contributions of £15.4m per annum (increasing in line with inflation) from 1 April 2012 which along with investment returns from return-seeking assets is expected to make good this shortfall by 31 March 2022. The next formal valuation is at 31 March 2014. The Company also pays contributions of 26.9% of pensionable salaries in respect of current accrual, with active members paying a further 6% of pensionable salaries.

Profile of the scheme
The net liability includes benefits for current employees, former employees and current pensioners. Broadly, about 23% of the liabilities are attributable to current employees, 6% to former employees and 71% to current pensioners. The scheme duration is an indication of the weighted average time until benefit payments are made. For the NIEPS, the duration is around 14 years (2012 – 14 years) based on the last funding valuation.

Risks associated with the scheme

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

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

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

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

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

The trustees insure certain benefits payable on death before retirement.

21. Pension Commitments (continued)

Aon Hewitt, the actuaries to NIEPS, have provided a valuation of Focus under IAS 19 revised as at 31 December 2013 based on the following assumptions (in nominal terms) and using the projected unit credit method.

	2013	2012
Rate of increase in pensionable salaries (per annum)	**3.55%**	3.05%
Rate of increase in pensions in payment (per annum)	**2.30%**	1.80%
Discount rate (per annum)	**4.40%**	4.30%
Inflation assumption (CPI) (per annum)	**2.30%**	1.80%
Life expectancy:		
Current pensioners (at age 60) - males	**26.4 years**	26.4 years
Current pensioners (at age 60) - females	**28.9 years**	28.9 years
Future pensioners (at age 60) - males	***27.9 years**	*27.9 years
Future pensioners (at age 60) - females	***30.5 years**	*30.5 years

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

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

The valuation under IAS 19 revised at 31 December 2013 shows a net pension liability (before deferred tax) of £91.6m (2012 - £140.2m). A 0.5% increase / decrease in the assumed discount rate would decrease / increase the net pension liability by £70.5m (2012 - £67.7m). A 0.5% increase / decrease in the assumed inflation rate would increase / decrease the net pension liability by £67.5m (2012 - £61.6m). A one year increase / decrease in life expectancy would increase / decrease the net pension liability by £34.6m (2012 - £31.9m).

Assets and Liabilities

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

	Group		**Company**	
	Value at 31 December 2013 £m	Value at 31 December 2012 £m	**Value at 31 December 2013 £m**	Value at 31 December 2012 £m
Equities – quoted	**223.1**	157.6	**175.5**	157.6
Bonds – quoted	**362.5**	418.9	**285.3**	418.9
Diversified growth funds – quoted	**397.1**	144.3	**312.4**	144.3
Other cash	**7.4**	2.1	**5.8**	2.1
Total market value of assets	**990.1**	722.9	**779.0**	722.9
Actuarial value of liabilities	**(1,081.7)**	(863.1)	**(904.0)**	(863.1)
Net pension liability	**(91.6)**	(140.2)	**(125.0)**	(140.2)

Other assets include cash balances and other investments.

21. Pension Commitments (continued)

Changes in the market value of assets

	Group		Company	
	2013 £m	2012 £m restated	**2013 £m**	2012 £m restated
Market value of assets at the beginning of the year / period	**722.9**	720.5	**722.9**	720.5
Interest income on scheme assets	**32.6**	25.5	**30.5**	25.5
Contributions from employer	**19.9**	13.8	**18.4**	13.8
Contributions from scheme members	**0.2**	0.2	**0.2**	0.2
Benefits paid	**(47.8)**	(33.8)	**(45.6)**	(33.8)
Administration expenses paid	**(1.1)**	(0.4)	**(1.1)**	(0.4)
Remeasurement gains / (losses) on scheme assets	**45.5**	(2.9)	**42.7**	(2.9)
Acquisition of subsidiary under common control (see note 17)	**206.9**	-	**-**	-
Re-apportionment of exiting participant's assets	**11.0**	-	**11.0**	-
Market value of assets at the end of the year / period	**990.1**	722.9	**779.0**	722.9

Changes in the actuarial value of liabilities

	Group		Company	
	2013 £m	2012 £m restated	**2013 £m**	2012 £m restated
Actuarial value of liabilities at the beginning of the year / period	**863.1**	826.3	**863.1**	826.3
Interest expense on pension liability	**37.9**	29.0	**36.1**	29.0
Current service cost	**4.0**	1.8	**2.6**	1.8
Curtailment loss	**-**	0.1	**-**	0.1
Contributions from scheme members	**0.2**	0.1	**0.2**	0.1
Benefits paid	**(47.8)**	(33.8)	**(45.6)**	(33.8)
Acquisition of subsidiary under common control (see note 17)	**176.4**	-	**-**	-
Re-apportionment of exiting participant's liabilities	**3.6**	-	**3.6**	-
Actuarial losses on scheme liabilities – financial assumptions	**44.3**	39.6	**44.0**	39.6
Actuarial value of liabilities at the end of the year / period	**1,081.7**	863.1	**904.0**	863.1

Powerteam Electrical Services (UK) Limited (PES), a subsidiary of the Group's immediate parent, ESBNI Limited until its sale on 24 December 2013, was a participating employer in the Focus section of NIEPS. Following the sale of PES the net assets and liabilities of PES were reapportioned to the Group.

The Group expects to make contributions of c£23.8m to Focus in 2014.

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

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

	Group		Company	
	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m restated	**12 months ended 31 December 2013 £m**	9 months ended 31 December 2012 £m restated
Current service cost	**(4.0)**	(1.8)	**(2.6)**	(1.8)
Administration expenses paid	**(1.1)**	(0.4)	**(1.1)**	(0.4)
Curtailment loss	**-**	(0.1)	**-**	(0.1)
Total operating charge	**(5.1)**	(2.3)	**(3.7)**	(2.3)

21. Pension Commitments (continued)

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

Analysis of the amount charged to net pension scheme interest

	Group		Company	
	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m restated	**12 months ended 31 December 2013 £m**	9 months ended 31 December 2012 £m restated
Interest income on scheme assets	**32.6**	25.5	**30.5**	25.5
Interest expense on liabilities	**(37.9)**	(29.0)	**(36.1)**	(29.0)
Net pension scheme interest	**(5.3)**	(3.5)	**(5.6)**	(3.5)

The actual return on Focus assets was £78.1m (9 months ended 31 December 2012 - £22.2m) for the Group and £73.2m (9 months ended 31 December 2012 - £22.2m) for the Company.

Analysis of amounts recognised in the Statement of Comprehensive Income

	Group		Company	
	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m restated	**12 months ended 31 December 2013 £m**	9 months ended 31 December 2012 £m restated
Remeasurement gains / (losses) on scheme assets	**45.5**	(2.9)	**42.7**	(2.9)
Actuarial losses on scheme liabilities: financial assumptions	**(44.3)**	(39.6)	**(44.0)**	(39.6)
Net gains / (losses)	**1.2**	(42.5)	**(1.3)**	(42.5)

The cumulative actuarial losses recognised in the Group and Company Statements of Comprehensive Income since 1 April 2004 are £68.5m and £76.9m respectively (2012 – £69.7m (restated) and £75.6m (restated) respectively). The directors are unable to determine how much of the net pension liability recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since the inception of Focus. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income shown before 1 April 2004.

Analysis of amounts recognised in the Statement of Changes in Equity

	Group		Company	
	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m	**12 months ended 31 December 2013 £m**	9 months ended 31 December 2012 £m
Net reapportionment of exiting participant's net assets	**7.4**	-	**7.4**	-

22. Share Capital and Equity

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Share capital	**36.4**	36.4	**36.4**	36.4
Share premium	**24.4**	24.4	**24.4**	24.4
Capital redemption reserve	**6.1**	6.1	**6.1**	6.1
Accumulated profits	**207.1**	135.9	**203.9**	135.9
	274.0	202.8	**270.8**	202.8

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

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

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

Allotted and fully paid share capital:	**2013**	2012
	£m	£m
145,566,431 ordinary shares of 25p each	**36.4**	36.4

23. Lease Obligations

Property, plant and equipment
The Group has entered into leases on certain items of property, plant and equipment. These leases contain options for renewal before the expiry of the lease term at rentals based on market prices at the time of renewal.

The future minimum lease payments under non-cancellable operating leases are as follows:

	2013	2012
	£m	£m
Within one year	**1.7**	0.4
After one year but not more than five years	**2.3**	0.3
More than five years	**1.0**	1.0
	5.0	1.7

24. Commitments and Contingent Liabilities

(i) Capital commitments
At 31 December 2013 the Group and Company had contracted future capital expenditure in respect of property, plant and equipment of £13.3m (2012 - £6.1m) and computer software assets of £2.3m (2012 - £1.8m).

(ii) Contingent liabilities
In the normal course of business the Group has contingent liabilities arising from claims made by third parties and employees. Provision for a liability is made (as disclosed in note 20) when the directors believe that it is probable that an outflow of funds will be required to settle the obligation where it arises from an event prior to the year end.

The Company has received claims from third parties in relation to potential diminution in the value of land due to the existence of electricity network apparatus, a number of which have been referred to the Lands Tribunal of Northern Ireland. 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.

25. Financial Commitments

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

26. Related Party Disclosures

Remuneration of key management personnel
The compensation paid to key management personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Key management personnel of the Group comprise the directors of the Company and the executive team.

	12 months ended 31 December 2013 £m	9 months ended 31 December 2012 £m
Salaries and short-term employee benefits	**1.3**	1.0
Post employment benefits	**0.3**	0.2
Other long-term benefits	**0.1**	0.1
	1.7	1.3

Group
The immediate parent undertaking of the Group and the ultimate parent company in the UK is ESBNI Limited (ESBNI). The ultimate parent undertaking and controlling party of the Group and the parent of the smallest and largest group of which the Company is a member and for which group 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.

A full list of the subsidiary undertakings of ESB are included in its accounts.

Related parties of the Company also include the subsidiaries listed in note 17.

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

Group	**Interest (paid)/ received £m**	**Revenue from related party £m**	**Charges from related party £m**	**Other transactions with related party £m**	**Amounts owed by related party at 31 December £m**	**Amounts owed to related party at 31 December £m**
Year ended 31 December 2013						
ESBNI	**-**	**-**	**-**	**-**	**-**	**-**
ESB subsidiaries	**-**	**20.0**	**(48.0)**	**(0.1)**	**3.3**	**1.8**
	-	**20.0**	**(48.0)**	**(0.1)**	**3.3**	**1.8**
9 months ended 31 December 2012						
ESBNI	-	-	-	1.4	-	-
ESB subsidiaries	-	14.8	(46.7)	0.8	3.2	9.8
	-	14.8	(46.7)	2.2	3.2	9.8

Outstanding balances with subsidiaries are unsecured. Current account balances are settled on a monthly basis. Amounts owed to related parties primarily arise from transactions relating to regulated sales and services purchased from ESB subsidiaries. Transactions with ESB group undertakings are determined on an arm's length basis.

Other transactions with ESB subsidiaries in the year primarily reflect costs incurred for assistance during storms. In 2012, other transactions with ESBNI primarily reflect the repayment of intercompany loans.

26. Related Party Disclosures (continued)

Transactions between the Company and related parties and the balances outstanding are disclosed below:

Company	Interest (paid)/ received £m	Revenue from related party £m	Charges from related party £m	Other transactions with related party £m	Amounts owed by related party at 31 December/ 31 March £m	Amounts owed to related party at 31 December/ 31 March £m
Year to 31 December 2013						
Company's subsidiaries	**(25.5)**	**0.3**	**(16.6)**	**-**	**22.0**	**420.1**
ESBNI	**-**	**-**	**-**	**-**	**-**	**-**
ESB subsidiaries	**-**	**20.0**	**(48.0)**	**(0.1)**	**3.3**	**1.8**
	(25.5)	**20.3**	**(64.6)**	**(0.1)**	**25.3**	**421.9**
Year to 31 December 2012						
Company's subsidiaries	(19.1)	-	-	-	-	412.8
ESBNI	-	-	-	1.4	-	-
ESB subsidiaries	-	14.8	(46.7)	0.8	3.2	9.8
	(19.1)	14.8	(46.7)	2.2	3.2	422.6

Amounts owed by related parties to the Company at 31 December 2013 include the loan advanced by NIE to NIE Networks Services Limited during the year (see note 12).

Amounts owed by the Company to related parties at 31 December 2013 and at 31 December 2012 includes the £400m loan and the associated interest.

Other related parties
During the year the Company contributed £19.1m (9 months ended 31 December 2012 - £14.2m) to NIEPS.

Northern Ireland Electricity

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