Northern Ireland Electricity Networks

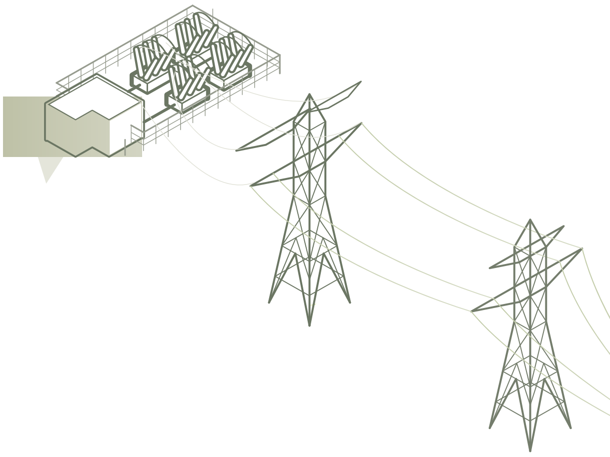
ANNUAL REPORT & ACCOUNTS

12 months ended 31 December 2016

CONTENTS

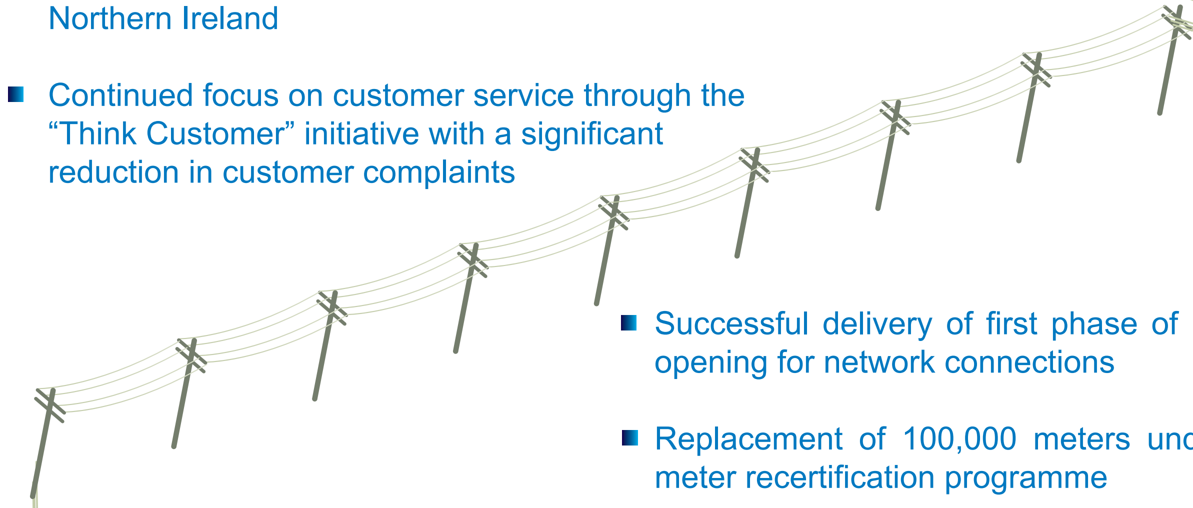
2016 AT A GLANCE

- Continued focus on the health and safety of staff, contractors, customers and the general public



- 15% increase in network investment reflecting ramp up in work to deliver the outputs under the RP5 price control
- Improved network performance, notwithstanding the increase in planned outages required by the increased work programme

- Renewable generation connected to the electricity network reached over 1GW – providing over 25% of total electricity consumption in Northern Ireland
- Continued focus on customer service through the “Think Customer” initiative with a significant reduction in customer complaints



- Successful delivery of first phase of market opening for network connections
- Replacement of 100,000 meters under the meter recertification programme
- Operating profit of £91.7m
- Publication of business plan for the period 1 October 2017 – 31 March 2024 (RP6)

- Over £180m contributed to the Northern Ireland economy through employment of circa 1,300 people and payments to local businesses and authorities

GROUP STRATEGIC REPORT

The directors present their annual report and accounts for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (the Group) for the year ended 31 December 2016.

Until 31 December 2015, NIE Networks' operating subsidiary companies were NIE Networks Services Limited and NIE Finance PLC. With effect from 1 January 2016, the responsibility for the functions and employees of NIE Networks Services Limited was transferred to NIE Networks and NIE Networks Services Limited ceased operational activity.

The Group 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 Company accounts have been prepared in accordance with FRS 101 – Reduced Disclosure Framework and the Company has taken advantage of certain disclosure exemptions allowed under this standard.

OWNERSHIP

NIE Networks is part of the Electricity Supply Board (ESB), the vertically integrated energy group based in the Republic of Ireland (RoI). NIE Networks is an independent business within ESB with its own Board of Directors, management and staff.

BUSINESS MODEL

PRINCIPAL ACTIVITIES AND REGULATION

The Group's principal activities are:

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

NIE Networks is the owner of the transmission and distribution networks in Northern Ireland and the distribution network operator. SONI Limited (SONI) is the transmission system operator and is responsible for transmission system design and planning.

The Company 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.

Revenue through charges for new demand and generation connections is received from the customer in accordance with the Statement of Connection Charges, which is revised each year with any changes being approved by the Northern Ireland Authority for Utility Regulation (the Utility Regulator).

NIE Networks is a regulated company and its business activities are regulated by the Utility Regulator. Under its Transmission and Distribution licences NIE Networks 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 the 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 network and its delivery to consumers across a network of overhead lines and underground cables operating at 33kV, 11kV and lower voltages.

In carrying out its responsibilities NIE Networks operates the electricity distribution network effectively to ‘keep the lights on’ for customers; inspects and maintains its assets so that they are in a condition to remain safe and reliable, repairs its assets if they get damaged or go faulty; replaces its assets once they become aged and in poor condition and upgrades existing networks or builds new infrastructure to provide additional electricity supplies or capacity to and from customers.

NIE Networks manages the transmission and distribution networks on an integrated basis. 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 around 860,000 consumers via a number of substations. During the year an estimated 7.8TWh of electricity was transmitted and distributed to consumers in Northern Ireland. There are 2,200km of transmission lines, 47,000km of distribution lines and over 300 major substations, including 60 serving large wind farm sites. NIE Networks’ transmission system is connected to that of the RoI through a 275kV interconnector and to that in Scotland via the Moyle Interconnector. There are also two standby 110kV connections to the RoI.

This network sits between electricity generators and customers. NIE Networks does not buy or sell electricity, or send any bills to electricity customers (apart from charges for new connections to the network).

In addition to core network activities, NIE Networks provides meters to customers and takes meter readings. It is responsible for managing market registration processes and the provision and maintenance of accurate data to support the operation of the competitive retail and wholesale electricity markets. Market Registrations and Change of Supplier processes facilitate customers switching suppliers in a timely manner in accordance with retail market rules and aggregated data is provided to the Single Electricity Market Operator on a daily basis for settlement of the wholesale market.

The Company also provides connections to the network for customers requiring a new electricity supply (demand connections) and those seeking to generate electricity and who may also require to export it to the network (generation connections). Until June 2016 NIE Networks was responsible for construction of all connections to the electricity network. In accordance with the introduction of contestability for new network connections, announced by the Utility Regulator during 2015, the first phase of opening the connections market to competition was completed successfully at the end of May 2016. NIE Networks is engaging with the Utility Regulator to enable full market opening by early 2018.

PRICE CONTROLS

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

The price control in respect of the fifth regulatory period since privatisation (RP5) commenced on 1 April 2012 and will apply for the period to 30 September 2017. The RP5 price control was determined in April 2014 following a referral to the Competition and Markets Authority (CMA). The formal licence modifications to implement the CMA's determination are expected to be in place over the next few months.

The price control includes up-front allowances of £638m and £350m (December 2016 price base) in respect of capital and operating expenditures respectively with the up-front allowances being adjusted to reflect 50% of the difference between NIE Networks' actual costs and the allowances. This is equivalent to the capital and operating cost allowances being calculated as the average of the up-front allowances and NIE Networks' actual costs. The RP5 rate of return is 4.1% plus inflation (weighted average cost of capital based on pre tax cost of debt and post tax cost of equity).

The CMA substantially allowed the components of the investment plan proposed by NIE Networks, the main exceptions being the proposals for improving network performance and increasing the resilience of the 11kV rural network to ice accretion events. The Company's emphasis during the remainder of RP5 will be on the delivery of specified outputs particularly regarding asset replacement expenditure. If any projects or outputs are deferred to RP6, the RP5 allowance for these projects will be deducted from the capital expenditure allowance for RP6 to ensure that there is no double funding.

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

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

In respect of pensions, the price control adopts the Ofgem Pension RIGs methodology whereby the deficit is split into historical and incremental elements with the cut-off date for the historic deficit being 31 March 2012. The price control allowance for the historic deficit matches the deficit repayment profile agreed with the pension scheme trustees, subject to an annual disallowance of £4.8m (December 2016 price base) in respect of costs associated with early retirement schemes incurred by the Company between 1997 and 2003. The price control makes no allowance for any deficit costs which might arise in respect of pensionable service post 31 March 2012. It is expected that these costs, in conjunction with on-going service costs, will be subject to benchmarking with the GB network operators in future price controls.

NIE Networks' next price control (RP6) will run from 1 October 2017 to 31 March 2024. In June 2016, NIE Networks submitted its RP6 business plan, which sets out the Company's investment plans for the period, to the Utility Regulator. The submission of the business plan followed extensive planning, analysis and consultation, including engagement with key stakeholders. This included the work of a Consumer Engagement Advisory Panel comprising representatives from the Company, the Utility Regulator, the Consumer Council for NI and the Department for the Economy to understand the views and opinions of all stakeholders on the type and level of service they expect and the prioritisation of the delivery of these services.

The Utility Regulator is expected to publish its Draft Determination at the end of March 2017 and, following a period of public consultation, a Final Determination is expected to be published in June 2017.

STRATEGY

NIE Networks' strategic direction is determined primarily by obligations under its Transmission Licence and Distribution Licence. Its vision is to be a high performing electricity networks company that makes a positive contribution to the local community. Its mission is to distribute electricity in a safe, reliable, efficient and environmentally sound manner. The Company works to its stated values concerning safety, employees, customer service, innovation, integrity, efficiency and community.

NIE Networks' strategic objectives are:

- the health and safety of employees, contractors and the general public;
- continued investment in Northern Ireland's electricity infrastructure to: replace worn assets; facilitate increased customer demand; strengthen the reliability of the rural network in severe weather events; and facilitate the connection of further renewable generation;
- performance through people by ensuring a working environment that maximises the potential of employees;
- value growth incorporating a competitive and transparent cost base;
- maintaining a strong investment grade credit rating;
- strong customer service performance; and
- effective stakeholder engagement.

NIE Networks seeks to discharge its statutory and regulatory obligations in a manner which meets these strategic objectives.

FINANCIAL REVIEW

FINANCIAL KEY PERFORMANCE INDICATORS (KPIs)

Operating Profit

The Group's operating profit as reported in the accounts was £91.7m for the year to 31 December 2016, a reduction of £0.6m on the previous year. Group revenue of £246.8m increased by £10.7m on the previous year, primarily reflecting the phasing of RP5 tariffs. Group operating costs of £155.1m increased by £11.3m on the previous year primarily due to higher depreciation charges reflecting investment in the network and higher payments made under PSO obligations.

FFO Interest Cover

The Group considers the ratio of FFO (funds from operations) to interest paid to be a key internal measure of the Group's financial health. FFO interest cover indicates the Group's ability to fund interest payments from cash flows generated by operations. The ratio, as shown in Note 6 to the accounts, at 3.2 times for the year (2015 – 3.1 times) is in line with the target level and confirms the Group's continuing financial strength.

Net Assets

The Group's net assets of £293.9m decreased by £16.7m on the previous year largely reflecting profit after tax of £45.5m offset by re-measurement losses (net of tax) of £46.3m on net pension scheme liabilities and a dividend paid to the shareholder during the year of £16.0m.

Cash Flow

Cash and cash equivalents decreased by £8.4m during the year due to net cash flows from operating activities of £186.4m together with a drawdown on the Group's Revolving Credit Facility (RCF) of £19.0m, offset by investing activity out flows of £197.8m and a dividend paid of £16.0m.

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 the year end comprised bonds of £175.0m and £400.0m (£174.6m and £398.4m respectively net of issue costs) which are due to mature in September 2018 and June 2026 respectively and £19.1m drawn down from a £150.0m RCF from ESB which is due to mature in September 2018.

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 funding requirements for the next 12 - 18 months. The Group has committed intercompany loan facilities in place of £150.0m of which £19.1m was drawn at 31 December 2016.

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 maintained investment grade credit ratings 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. The RCF is denominated in sterling and carries a floating interest rate based on LIBOR. Given that 97% of the Group's total borrowings carry a fixed interest rate, the Group does not consider that it is significantly exposed to interest rate risk.

Since December 2010, NIE Networks has held a £550m portfolio of RPI linked interest rate swaps. Following a restructuring in 2014 the swaps have a mandatory break period in 2022. 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, including fair values, 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:

YEAR TO 31 DECEMBER	2016 £m	2015 £m
Cash and cash equivalents	**9.3**	17.7
Trade and other receivables (excluding prepayments and accrued income)	**58.4**	56.9
Other financial assets – current and non-current	**598.0**	465.4
	665.7	540.0

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 certain 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

KPIs

Throughout this Operational Review reference is made to the KPIs used to measure progress towards achieving operational objectives. Performance during the year is summarised below:

KPIs - YEAR TO 31 DECEMBER	2016	2015
SAFETY:		
Lost time incidents (number of)	**1**	0
NETWORK PERFORMANCE:		
Customer Minutes Lost (CML):		
Planned CML (minutes)	**65**	66
Fault CML (minutes)	**56**	65
CUSTOMER SERVICE:		
Overall standards – defaults (number of)	**None**	None
Guaranteed standards – defaults (number of)	**None**	None
Stage 2 complaints to the Consumer Council (number of)	**1**	4
CONNECTIONS:		
Customer demand connections completed (number of)	**5,984**	5,963
Renewable generation connected (MW):		
Small scale (< 5MW)	**74**	66
Large scale (> 5MW)	**160**	30
SUSTAINABILITY:		
Waste recycling rate (%)	**98%**	97%

HEALTH & SAFETY

Ensuring the health, safety and wellbeing of employees, contractors and the general public continued to be the number one value at the core of all NIE Networks' business operations. The aim is to provide a zero harm working environment where risks to health and safety are assessed and controlled. This is achieved by the promotion of a positive health and safety culture and adherence to legislation and recognised safety standards. The approach to safety is based on the following principles: Leadership; Competence; Compliance and Engagement.

The health and safety management system is accredited to OHSAS 18001 standard and based on best practice guidance from the Health and Safety Executive for Northern Ireland (HSENI) and the Institute of Directors. NIE Networks continues to engage with various organisations including the HSENI, the NI Utilities Safety Group, the NI Authority for Roads and Utilities Committee, the NI Environment Agency, and various Energy Networks Association (ENA) health and safety committees to share information and improve safety performance and learning.

The target for lost time incidents continues to be set at zero: there was one incident during the year (2015 - nil) which resulted in lost working time for an employee.

Safety Engineers are aligned with organisational structures on a 'Business Partner' relationship which facilitates integration of skills and allows influence and support. During 2016 the Safety Team continued to support all business units with particular focus on the following areas:

- the reporting, analysis and investigation of "near miss" incidents which is key to improving safety performance. The quality of "near miss" incidents reported continued to improve with approximately 56% of incidents classed as "good catch". Each "near miss" incident is analysed by a team of experts to ensure consistency and accurate follow-up, enabling further improvements in equipment and operational procedures to be identified and addressed;

- formalisation of all incident investigation procedures;

- continued programme of formal safety training for employees and contractors including: safety seminars delivered to all staff to increase risk awareness and perception; the publication of a monthly Safety newsletter and comprehensive contractor management arrangements to ensure that contractors adhere to the same safety rules and requirements as employees;

- further employees attained certificates in Construction, Health and Safety from the National Examination Board in Occupational Safety and Health (NEBOSH);

- the site safety inspection programme continued throughout the year with over 3,500 inspections completed: the focus of the inspections was coaching and encouraging good site behaviours while ensuring compliance was achieved. In line with the Leadership and Engagement principles these were completed by a range of staff including the Managing Director, Executive Committee members, business unit managers and front-line managers;

- continued focus on reducing road traffic incidents including driver training modules introduced as part of the apprenticeship programme; and

- a programme of health and wellbeing checks, health screening and lifestyle advice was made available to all staff to coincide with "European Health & Safety Week".

Updates of safety performance KPIs are provided to each Executive Committee and Board meeting. This provides a level of regular assurance against objectives agreed in the annual Health, Safety and Wellbeing Business Plan.

In recognition of its strong safety focus, NIE Networks won a regional safety award at the All-Ireland Occupational Safety Awards.

In March 2016 the ENA Safety, Health & Environment conference was hosted by NIE Networks in Belfast, attended by over 180 delegates and trade exhibitors. Session themes included Occupational Health, Environment, Powering Improvement, Road Safety and industry case studies.

NETWORK INVESTMENT

The network investment plan to deliver the physical outputs specified in the RP5 determination involved a ramp up in the level of capital investment undertaken during 2016 to the end of the price control period in 2017. During the year NIE Networks invested a total of £101.4m (2015 - £88.3m) (net of customer contributions) in transmission and distribution networks, representing an increase of 15% on the prior year. The investment was primarily in relation to the refurbishment and replacement of worn transmission and distribution assets to maintain reliability of supply and ensure the safety of the network.

During the year 1,800km of transmission and distribution overhead lines were refurbished as part of an on-going programme. Tree cutting is an essential on-going programme to maintain the networks' resilience to storm conditions and during the year tree cutting was carried out along 8,600km of overhead lines.

Other key projects progressed during the year included:

- completion of a new 110/33kV substation at Belfast North Main;

- the refurbishment of three 275/110kV substations (at Kells, Castlereagh and Tandragee) under the transmission asset replacement programme: these projects are due to complete during 2017;and

- major refurbishment works progressed at a further three 110/33kV substations.

The total network investment also included expenditure to facilitate connection of additional renewable generation, consistent with NIE Networks "Medium Term Plan". Projects advanced during 2016 as part of the "Medium Term Plan" included:

- construction of a 50 kilometre 110kV circuit between Tamnamore and Omagh required to reinforce the existing transmission overhead line infrastructure in Northern Ireland to facilitate the flow of power from renewable generation in the west to the demand centres in the east of Northern Ireland. Construction of this project commenced in late 2015 and was substantially completed during 2016; and

- construction of three 110/33kV wind farm cluster substations (at Gort in Co. Fermanagh, Tremoge in Co. Tyrone and Rasharkin in Co. Antrim) to enable the connection of 15 large scale wind farms with a combined capacity in excess of 200MW: these projects completed in early 2017.

SUSTAINABILITY

NIE Networks' Environmental Policy commits to protecting the environment and mitigating the impact of its activities upon the environment. The environmental management system is accredited to ISO 14001 and is designed to ensure compliance with all relevant legislative and regulatory requirements and, where practical and economically viable, NIE Networks seeks to develop standards in excess of such requirements, introducing best practice solutions where possible. The annual environmental action plan sets out detailed plans to ensure achievement of key objectives of: minimising the risks of air and water pollution and land contamination; minimising the impact on local communities; enhancing energy and resource consumption efficiency and waste management practices whilst ensuring appropriate overall environmental management.

During 2016 improvements were made in each of these areas – the number of environmental incidents has reduced and NIE Networks' remediation process was deemed 'best practice' by the British Standards Institute. There has been continued focus on waste management targets with the recycling rate for all hazardous and non-hazardous waste (excluding excavation from roads and footpaths, civil projects excavation and asbestos removal) remaining high at 98% (2015 – 97%).

In ARENA's 2016 Northern Ireland Environmental Benchmarking Survey NIE Networks further improved on its 2015 Gold Award by achieving the top rated Platinum standard, performing well in excess of the utility sector average.

The Company has complied with the new mandatory Energy Savings Opportunities Scheme (ESOS) legislation with its submission based on improvements to minimise network losses.

NETWORK PERFORMANCE AND CUSTOMER SERVICE

The provision of a safe, reliable and responsive electricity service, which endeavours to meet the standards customers expect, and to deal with customers professionally, courteously and respecting their individual needs, are key NIE Networks values.

Against the backdrop of the ramp up in the network investment programme during 2016, NIE Networks continued to manage outages required for essential maintenance and development in order to minimise the occasions and length of time that customers are off supply. Performance of the distribution network is measured in its availability – the number of minutes lost per customer (CML). CML due to planned outages is the average number of minutes lost per customer for the period through pre arranged shutdowns for maintenance and construction: the number of planned CML for 2016 was 65 minutes (2015 - 66 minutes).

The average number of CML due to faults on the distribution network in 2016 was 56 minutes, a decrease on the previous year (2015 - 65 minutes) reflecting overall more favourable weather conditions especially during the later months of the year.

The Utility Regulator sets overall and guaranteed standards of performance. The majority apply to services provided, for example the timely restoration of customers' supplies following an interruption and prescribed times for responding to customers' voltage complaints. All the overall standards were achieved and there were no defaults against guaranteed standards for customer service activities delivered during 2016 (2015 - none). During the year 90% (2015 - 89%) of electricity supplies were restored within three hours, within the regulatory standard of 87%.

NIE Networks continues to test and confirm the robustness of its emergency response capabilities during severe weather events in order to effectively restore supply to all customers. The significant commitment from all staff helps to ensure that NIE Networks effectively manages this very important aspect of the business with every employee having an "escalation" role in addition to their normal day-to-day role. During the year there were three occasions where severe weather caused damage to the network with several thousand customers affected and in each case all customers were reconnected within 24 hours.

The focus on reducing the number of avoidable complaints continued and the number of complaints received from customers was substantially lower than the previous year. The continued strong focus on customer service limits the number of instances when customers are dissatisfied to the extent that they refer a complaint to the Consumer Council for Northern Ireland (CCNI) for review. Only one complaint was taken up by the CCNI on behalf of customers (Stage 2 Complaints to the CCNI) during the year (2015 – four complaints). Individual complaints received are analysed and assessed, based on the individual specific circumstances, as to whether or not the complaint was avoidable.

Across NIE Networks there has been a focus on reviewing customer service activities in order to improve delivery in all areas. This has included the introduction of customer information days for major planned projects to explain the nature and impact of work to be carried out. A new Code of Practice on "Visits to Customers' Properties" was rolled out to all employees and contractors. During the year call backs to customers affected by power cuts were introduced. These "Think Customer" improvements will continue throughout 2017 as part of the Company's "Customer Service Action Plan".

Based on customer and stakeholder feedback, NIE Networks continued to deliver a more multi-channel approach to communication and, during 2016, a Powercheck facility was launched on NIE Networks' website to provide customers with real-time information on power cuts. Customers can submit meter readings and report power cuts online. Customers can also communicate with the Company via Twitter @NIElectricity.

CONNECTIONS

NIE Networks' Connections business provides safe, secure, reliable and timely electricity connections within Northern Ireland. The purpose of the Connections business is to provide an excellent customer experience through the connection process and to provide least cost technically acceptable connections. Focus throughout 2016 has been on improving customer service throughout the connections process and connecting as much generation capacity as possible given the various constraints within the sector.

The majority of connections work undertaken relates to demand or load connections, covering: the provision of new connections to homes, businesses, farms and housing developments; altering existing connections including replacing electrical equipment, installing new earthing or diverting equipment; and increasing or decreasing the load of electrical equipment to cater for new requirements. The number of applications during the year for these types of "demand" connections exceeded 10,000, a 5% increase on 2015. The number of connections completed during 2016 also increased on 2015.

During the year the average life cycle times from initial job registration until connection to the network reduced by 14%. This was achieved at a time when significant volumes of generation connections were also delivered.

Generation connections fall into three broad categories – large scale, small scale and micro:

- Large scale generation (typically 5 - 40MW) mainly takes the form of wind farms connected to the transmission and distribution networks;

- Small scale generation (typically 20kW – 5MW) takes the form of single wind turbines, anaerobic digesters, photovoltaic and hydro installations connected to the distribution network; and
- Micro-generation (4 - 12kW) is typically photovoltaic panels on domestic rooftops and normally connects directly to customer premises.

During 2016, 160MW of large scale generation was connected to the network, taking the total large scale generation connected to the network to 819MW (75% of total renewable generation capacity). The major proportion of large scale generation was connected through windfarm clusters at Rasharkin and Tremoge amounting to 121MW and 39MW respectively.

Windfarm clusters are effectively new 110kV connection nodes established in the vicinity of a number of windfarm projects to enable more efficient connection on a ‘hub and spoke’ basis with associated environmental, technical and operational benefits. In overall terms they reduce the route length required to connect all projects and enable additional capacity to be connected.

During 2016, 60MW of small scale generation was connected to the network, taking the total connected for small scale generation to 189MW (17% of total renewable generation capacity). A further 107MW is committed and is at various stages of the connection process. Micro-generation connections to the network increased to 79MW (7% of total renewable generation capacity) including 14MW added in 2016.

Electricity generated from renewable sources represented over 25% of consumption in Northern Ireland during 2016. A significant milestone was reached in December 2016 when 1GW of connected generation was achieved. A further 670MW is committed to be connected by 2020 which will increase the total connected renewable capacity to more than 1.7GW.

NIE Networks continues to seek innovative ways to connect generators to the network and, during the year, the Company completed research to develop “managed connections” to allow access to remaining capacity of the network thus facilitating more generation capacity to connect to the network, albeit with some level of restriction. Following a large influx of generator connection applications in 2015, consultation with the industry was carried out to assess how best to maximise the uptake of remaining capacity and resulted in a decision paper published jointly by NIE Networks and SONI on 31 May 2016. Since then, generation connection offers totalling circa 140MW have been issued.

The market for greater than 5MW distribution connections was opened successfully to competition as planned at the end of May 2016. This provides choice for customers in the delivery of these connections. For ‘contestable’ elements of connections, customers can choose whether to accept a quotation from NIE Networks or to engage an accredited Independent Connection Provider (ICP) to construct the connection.

NIE Networks’ Connections business is now preparing for market opening of distribution connections lower than 5MW in early 2018. This requires significant IT development, implementation of new processes and staff training to facilitate competition.

MARKET OPERATIONS

NIE Networks continued to achieve full compliance with its regulatory obligations in respect of customer appointments for metering work. Each year approximately three million visits to customer properties are made to take meter readings and, in 2016, NIE Networks continued to meet its regulatory standard to obtain actual meter readings from 99.5% of all customers once per year, therefore ensuring that electricity consumption is calculated accurately and minimising the number of estimated bills issued by electricity suppliers. The access rate achieved to enable meter reading remained high at 82%.

NIE Networks also has certain obligations under the Trading and Settlement Code to provide aggregated meter data for the purposes of settlement of the wholesale Single Electricity Market. NIE Networks continued to be fully compliant with these obligations with no breaches of the Code since its introduction in 2007.

A major programme to replace meters that have reached the end of their life cycle commenced during 2015 and will involve replacement of 25% of customers' meters by 2017. Considerable progress in this programme was achieved during 2016 with the replacement of circa 100,000 meters in line with programme targets.

PEOPLE

NIE Networks' resourcing strategy is to use highly skilled insourced labour for core strategic activities working in partnership with bought in services as appropriate. This ensures that knowledge and skills are retained, allows greater agility and flexibility to redeploy employees where needed and builds a strong culture of engaged employees motivated to deliver business objectives. The organisation continues to face a number of demanding challenges. Organisation management structures have continued to be streamlined creating development opportunities for all levels of employees and a number of external recruitment opportunities. The number of employees at the end of 2016 was 1,277 (2015 – 1,222).

Training and Development

NIE Networks seeks to attract, develop and retain highly skilled people through its apprenticeship, graduate, apprentice-to-graduate, scholarship and sponsorship programmes. The Company's Technical Training Centre, which includes Apprentice Training, continued to maintain its extremely high standards and again achieved an "Outstanding" classification in its annual inspection by the Education and Training Inspectorate. The Company's Technical Training Centre also received accreditation from the Institution of Engineering and Technology (IET) for its apprenticeship programme.

NIE Networks is 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.

A strong focus on development continued during the year with a high percentage of employees involved in a variety of training and development which included leadership skills programmes, formal qualifications, role enhancement, role changes, team development initiatives, coaching and mentoring.

NIE Networks continues to promote the professional development of its engineers through the IET Professional Registration Scheme and proactively encourages and supports more employees to become IET members and Chartered Engineers. During 2016 an in-house mentor scheme and an IET Accreditation Scheme for Technicians were launched.

Equality and Diversity

NIE Networks is proactive in implementing and reviewing 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. NIE Networks is committed to providing equality of opportunity for all employees and job applicants with on-going monitoring to ensure that equality of opportunity is provided in all employment practices. The Company uses outreach initiatives to actively seek female applications in male dominated job roles. In 2016 this resulted in an increase in female applications for both the apprenticeship and graduate programmes with 30% of apprentices and 40% of graduates appointed being female.

Company 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.

Sickness Absence

The proactive 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 all employees. The Health and Wellbeing Forum and champions across the business rolled out various initiatives during the year to provide additional guidance and support to enable employees to proactively manage their own health and wellbeing. Sickness absence during the year remained at

2.6% which is below the industry average.

Employee Engagement
NIE Networks places considerable emphasis on employee participation and engagement. During 2016, the Company was awarded the Chartered Institute of Personnel Development Northern Ireland Best Employee Engagement Strategy Award in recognition of the effectiveness of the engagement process across the Company.

An employee engagement survey conducted during 2016 showed good progress since the last survey conducted in 2012 with engagement scores above the benchmark. This result reflects the significant focus on employee engagement activities including the Employee Engagement Board, Health & Well Being Forum, Digital Strategy Group, Innovation Forum and the Employee Voice.

Employee relations are positive and constructive. During 2016 new Employee Relations Forums have been established, comprising management and trade union representatives, meeting monthly which ensures employee relations issues are progressed. More formal meetings are held regularly between senior managers and representatives of employees and their trade unions to discuss more complex employee issues.

In addition, there is a formal induction programme for all new starts including meeting with senior management. During the year employees were kept informed of NIE Networks' objectives, plans, financial and operational performance and their effect on them as employees through the monthly newsletter, monthly team briefings and via presentations by the Managing Director. A significant portion of staff have performance bonus arrangements which are partly aligned to the Group's financial and operational performance.

LOOKING FORWARD

Key priorities for 2017:

- ensuring the health and safety of employees, contractors and the general public will continue to be the top priority: achieving a zero-harm work environment through implementation of injury and accident-free initiatives;
- delivering the network investment programme under RP5, to replace worn assets, within regulatory allowances;
- delivering the generation connections pipeline;
- delivering improved customer service through the continuing "Think Customer" programme;
- achieving a satisfactory outcome in relation to the RP6 price control process;
- opening the connections market to further competition, with full market opening to be delivered in early 2018;
- continued investment in employees to enhance NIE Networks' capability; and
- engaging effectively with key stakeholders.

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

The Board has overall responsibility for NIE Networks' approach to risk. Recognising that risk is an active element of the environment within which NIE Networks 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 Networks' risk management framework provides clear policies, processes and procedures to ensure a consistent approach to risk identification, evaluation and management across the Company and includes appropriate structures to support risk management and the formal assignment of risk responsibilities to facilitate managing and reporting on individual risks.

The process of considering the Company's exposure to risk and the changes to key risks has assisted the Board in its review of strategy and the operational challenges faced by the Company.

The Board is also responsible for agreeing overall risk appetite and tolerance for individual risks. During the year the Board reviewed and approved risk appetite proposals for key business activities allowing the risk management framework to be tailored to the level of tolerable risk approved. As a regulated utility NIE Networks is prudent in its overall management of the business and has a limited appetite for and tolerance of risk.

The Risk Management Policy is reviewed annually by the Board and sets out the high level principles and policy requirements that form the basis of risk management within NIE Networks and also outlines the risk management roles and responsibilities and the main organisational and procedural arrangements that apply to support the effective management of risk. The 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 biannually. The RMC reports on its activities to the Executive Committee, Audit & Risk Committee and the Board during the year.

The internal audit function reports to the Audit and Risk Committee, independent of management, and has provided independent assurance to the Audit and Risk Committee on the adequacy and effectiveness of NIE Networks' system of governance, risk management and control.

PRINCIPAL RISKS & UNCERTAINTIES

The principal risks and uncertainties that affect the Group along with the main mitigating strategies deployed are outlined below.

RISK	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 Networks.	A comprehensive annual Health, Safety and Wellbeing Business Plan approved annually by the NIE Networks Board which sets out detailed targets for the management of health and safety. These targets are continually monitored as part of the Company's ISO standard safety management. Comprehensive safety rules, policies, procedures and guidance reviewed and communicated regularly and compliance monitored on an on-going basis. A strong focus on the inspection of work sites and the reporting, reviewing and communication of near miss incidents. On-going programmes to increase public awareness of the risks and dangers associated with electricity equipment. Ongoing engagement with GB Distribution Network Operators through the Energy Networks Association in order to share best practice and learning.

RISK	RISK DESCRIPTION	MITIGATING STRATEGIES
REGULATORY RISKS		
Price controls	Inadequate allowances from price control reviews.	The Company manages regulatory risks through the Regulatory Affairs team and relevant senior managers across the organisation supported by specialist external advice. Regulatory submissions are evidence based. NIE Networks submitted a well justified, evidence based business plan for RP6 to the Utility Regulator in June 2016.
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	Inability to secure adequate funding at appropriate cost for planned investments and maintaining NIE Networks' credit metrics within rating targets.	NIE Networks employs a continuous forecasting and monitoring process to ensure adequate funding is secured.
	Exposure to financial counterparty risk.	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. NIE Networks conducts business only with Board approved counterparties which meet the criteria outlined in the Company's treasury policy. The Company's treasury policy and procedures are reviewed, revised and approved by the Board as appropriate.
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. The current deficit repair plan was implemented following conclusion of the last actuarial review as at 31 March 2014. The deficit repair plan will be reviewed following the next actuarial review as at 31 March 2017.

RISK	RISK DESCRIPTION	MITIGATING STRATEGIES
MARKET RISKS		
Customer service	Failure to meet standards for customer service resulting in damage to reputation.	Stretching customer service standards are approved by the NIE Networks 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 Networks' regulatory obligations. Additional resources put in place to deliver the work programme. The Company 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 on-going assessment of the network condition and development of asset management techniques to inform maintenance and replacement strategies and priorities. NIE Networks' asset management practices are certified to ISO 55001, 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 Networks' strategy is to continue to maintain and develop a safe and secure network to meet 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 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.

RISK	RISK DESCRIPTION	MITIGATING STRATEGIES
OPERATIONAL RISKS continued		
Business continuity	NIE Networks could sustain a greater than necessary financial impact through inability to carry on its operations, either for a short or prolonged period.	NIE Networks maintains business continuity plans, incorporating an IT disaster recovery and relocation plan, 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 Networks' 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 Networks' Data Protection Forum implements and monitors compliance with data protection policy and procedures.
PEOPLE RISKS		
Knowledge, skills and succession management	Inadequate resources with the necessary knowledge and skills. Failure to develop and retain staff.	NIE Networks' 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 the Company's regulatory obligations. People development is a key priority for the Company with continued investment in staff training, skills development and on-going 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

Nicholas Tarrant
Managing Director

Northern Ireland Electricity Networks Limited,
Registered Office,
120 Malone Road,
Belfast BT9 5HT
Registered Number: NI026041

Date: 9 March 2017

CORPORATE SOCIAL RESPONSIBILITY

NIE Networks 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 its mainstream business activities and various specific initiatives the Company seeks to make a positive impact on the communities in which it operates. Details of health and safety management, employment policies and initiatives and sustainability performance during 2016 can be found in the Operational Review on pages 8 to 14. Initiatives undertaken during the year to support NIE Networks' principal CSR themes and priorities are described below.

During the year NIE Networks employees attended around 130 events to promote safety around electricity and provide skills, careers advice and guidance.

SAFETY

Electricity provides a vital service for all people in Northern Ireland, however it is dangerous and NIE Networks aims to continually heighten and improve the awareness of those working in the close vicinity of the electricity network to stay safe and to teach children how to identify electricity equipment and to avoid it. A major ongoing safety programme involves employees at all levels and is developed to address new safety concerns such as drones or other objects which come into close proximity with the electricity network.

During 2016, around 22,000 farmers and contractors received safety advice from the Company at farm safety events and through the issue of "Farm Risk Assessment" and other safety material through the Ulster Farmers Union. Safety presentations were made to contractors in the transport industry and to all other utilities in Northern Ireland. Fishing and sailing clubs continued to receive safety advice.

NIE Networks' "Kidzsafe" programme continued with over 13,000 schoolchildren participating in the interactive programme to educate and raise awareness of the dangers of the electricity network in an effort to reduce incidences of vandalism and electricity-related injuries. NIE Networks has been involved in the development of a dedicated safety training facility for children and young people, known as RADAR (Risk Avoidance and Danger Awareness Resource). Within the RADAR safety village, NIE Networks has built an overhead line and a ground-mounted substation complete with special effects to simulate the sound and light associated with accidental contact with electrical apparatus. 10,000 children and young people are expected to visit RADAR during 2017.

The Company continued to work with the Police Service of Northern Ireland (PSNI), the network operators in GB and other utilities in Northern Ireland to address the dangerous issue of metal theft. Thieves targeting electrical installations endanger themselves, employees and the wider public.

NIE Networks' safety advice is supplemented by a proactive media campaign, social media campaign and information available on its website at www.nienetworks.co.uk/Safety.

CUSTOMER CARE

NIE Networks aims to deliver electricity safely and reliably to customers and to respond quickly and efficiently should a power cut occur unexpectedly. A series of presentations were made to key customer and government bodies and elected representatives on how NIE Networks repairs network faults.

Arrangements are in place with Northern Ireland Water, BT and Phoenix Natural Gas to provide mutual support, for example by sharing resources and equipment, so that customers' utility supplies can be restored more quickly during periods of severe weather or other emergency situations. In addition, together with the councils, emergency planners, health trusts and other organisations, NIE Networks has arrangements in place to respond to wider community needs in the event of customers being without electricity for an extended period of time due to severe weather or an emergency situation.

NIE Networks' critical care information service is a priority service for 6,000 customers who rely on electricity for their healthcare needs with customers or their carers receiving prioritised information on faults or planned work on the network.

The Company works with the electricity suppliers to offer a Password scheme to reassure customers that the employee is a genuine caller, whereby NIE Networks delivers a pre-agreed password to the customer before being allowed to enter a property.

WORK EXPERIENCE & EDUCATIONAL OUTREACH

NIE Networks is conscious of the on-going need to encourage and develop tomorrow's workforce. By its nature power engineering is highly skilled and specialist and requires many years of training. 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 a significant skills shortage in the future. NIE Networks therefore continues to engage proactively with students to consider engineering as a career, through a wide range of educational outreach initiatives including:

- main sponsor of "Skills NI", a two day careers event for 14-19 year olds with around 60 exhibitors and connecting around 6,000 young people with job, career and skills opportunities across Northern Ireland;
- links with over 60 schools, most of the further educational colleges and the two universities to promote opportunities from taking Science, Technology, Engineering and Maths (STEM) subjects;
- offering five further Electrical & Electronic Engineering scholarships at Queen's University Belfast. In total NIE Networks has 23 scholarship students, mostly at Queen's University Belfast;
- work experience for GCSE and A-Level students studying STEM subjects and sponsoring, mentoring and the facilitation of four week research and development experience for two A-Level students via the Nuffield Bursary;
- sponsoring the IET Northern Ireland First Lego League, a global robotics challenge, supporting participating schools with engineering mentoring and providing a bursary for the winning team to represent Northern Ireland in the UK First Lego League final;
- engineering mentoring to school children participating in the Sentinus "SMART Energy","Team R&D" and "Engineering Futures" programmes; and
- providing advice and assistance at numerous interview skills and assessment sessions in conjunction with eye4education.

COMMUNITY INITIATIVES

NIE Networks continues to be a member of Business in the Community (BiTC). Throughout 2016 employees served on the boards of 23 local voluntary, community and social enterprise organisations through BiTC's "Business on Board" programme and a further two employees provided specialist services to charities through BiTC's "Building on Talent" programme. NIE Networks also participates in BiTC's "PLACE" Leadership Team, which seeks opportunities to promote community regeneration through employee volunteering.

The Company continues to support the PSNI Quick Check Scheme which encourages homeowners and particularly the elderly and vulnerable to check the identity of callers at their homes and provides a 24 hour telephone helpline.

CHARITABLE GIVING & SPONSORSHIP

Charitable giving by employees is promoted through the NIE Networks Staff and Pensioners Charity Fund, in addition to which the Company contributed £10,000 during the year.

NIE Networks continued the partnership with Conservation Volunteers to plant native trees and community orchards in communities across Northern Ireland. The Company continued its "Silver" level partnership with the Ulster Wildlife Trust and will be working with them on its sustainable commitment. NIE Networks sponsors Guide Dogs NI.

The Company is an active member of and provides financial support to the CBI, the Chamber of Commerce, Women in Business and the Centre for Competiveness in Northern Ireland.

BOARD OF DIRECTORS

BACK (L-R): Peter Ewing, Nicholas Tarrant, Ronnie Mercer
FRONT (L-R): Stephen Kingon, Rotha Johnston

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 Pro-Chancellor at Queen's University Belfast and a non-executive director of Anderson Spratt (Holdings) Ltd, Baird Group Ltd and Dale Farm Ltd. He was formerly Chairman of Invest Northern Ireland and Managing Partner of PricewaterhouseCoopers in NI.

DAME ROTHA JOHNSTON DBE was appointed as an independent non-executive director in March 2011. She is Chairperson of Northern Ireland Screen, the Government-backed lead agency in Northern Ireland for the film, television and digital content industry, a member of KPMG's Northern Ireland Advisory Board and a member of Belfast Harbour Commissioners. In the past she has been a BBC Trustee for Northern Ireland and Pro-Chancellor at Queen's University Belfast. In 2016 she was awarded Dame Commander of the Order of the British Empire for services to the Northern Ireland economy and public service. Ms Johnston chairs the Audit & Risk Committee.

RONNIE MERCER CBE was appointed as an independent non-executive director in March 2011. He is a member of the University of Glasgow Court. He was Chairman of Scottish Water from 2006 to 2015 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, Executive Vice President Operations of the PacifiCorp subsidiary, Generation Director and Managing Director of Southern Water.

NICHOLAS TARRANT, Managing Director, was appointed to the Board on 1 December 2014. He joined ESB in 1993 where he has held a number of senior management positions including Generation Manager with responsibility for ESB's 4,800MW generation and lead manager on ESB's €200m Novus Modus Clean Tech Fund. He is a chartered engineer at the Institute of Engineers of Ireland and holds an MSc (Management) from Trinity College, Dublin.

PETER EWING, Deputy Managing Director and Director of Regulation and Market Operations, was appointed to the Board in July 2011. He is Chairman of the NIE Pension Scheme Board of Trustees and a non-executive director of The Fold Housing Association. He formerly held Finance Director positions at Viridian Group, NIE and Moy Park Group. He is a Fellow of Chartered Accountants Ireland.

GROUP DIRECTORS' REPORT

The directors present their report for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (the Group).

RESULTS AND DIVIDENDS

The results for the year ended 31 December 2016 show a profit after tax of £45.5m (2015 - £50.2m). During the year the Company paid a dividend of £16.0m (2015 - £16.5m). The business and financial review, together with future business developments, are provided in the Group Strategic Report.

CORPORATE GOVERNANCE

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

NIE Networks' Board comprises three independent non-executive directors and two executive directors. Stephen Kingon CBE chairs the Board. Dame Rotha Johnston DBE and Ronnie Mercer CBE are the Board's other independent non-executive directors. Nicholas Tarrant, Managing Director and Peter Ewing, Deputy Managing Director and Director of Regulation and Market Operations are the executive directors. Further details on Board members are provided on page 22. The Board meets at least quarterly and also meets on other occasions as necessary: it met on ten occasions during the year.

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 and Wellbeing 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 Networks. It meets monthly and on other occasions as necessary and reports on its activities to each Board meeting.

Current membership of the Board, the Audit & Risk Committee and the Executive Committee is outlined as follows:

BOARD OF DIRECTORS

Stephen Kingon CBE (Chair)
Rotha Johnston DBE (Independent Non-Executive Director)
Ronnie Mercer CBE (Independent Non-Executive Director)
Nicholas Tarrant (Managing Director)
Peter Ewing (Deputy MD and Director of Regulation & Market Operations)

AUDIT & RISK COMMITTEE

Rotha Johnston DBE (Chair)
Stephen Kingon CBE
Ronnie Mercer CBE

EXECUTIVE COMMITTEE

Nicholas Tarrant, Managing Director (Chair)
Peter Ewing, Deputy MD and Director of Regulation & Market Operations
Con Feeney, Network Performance & Safety Director
Roger Henderson, Network Connections Director
Bob Sweeney, Network Construction Director
Eddie Byrne, 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. Its terms of reference, can be found on NIE Networks' website at www.nienetworks.co.uk/About-us.

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 is competent in accounting and auditing. The Committee had six meetings during the year with all members attending each meeting.

The terms of reference sets out the duties of the Audit & Risk Committee under the headings of: Financial Reporting, Internal Control and Risk Management, Internal Audit and External Audit. The issues considered by the Committee during the year for each area is outlined below:

Financial Reporting

- reviewed the annual, interim and regulatory accounts for NIE Networks and annual accounts for NIE Finance PLC and NIE Networks Services Limited, considering the appropriateness of accounting policies, whether the accounts give a true and fair view, the appropriateness of the going concern assumption and reviewing the significant issues and judgements; and
- reviewed various regulatory submissions.

Internal Control and Risk Management

- considered and approved the Risk Management Committee's work programme for 2016 and received regular updates on progress;
- considered key risks faced together with mitigating actions being taken and their alignment to the risk tolerance levels agreed;
- reviewed and monitored the effectiveness of internal controls and the risk management framework;
- considered an updated risk appetite assessment relating to the Company's principal risks and other key business activities;
- considered an external review of the Risk Management framework;
- considered the revised Code of Ethics and new policy on Modern Slavery; and
- reviewed the adequacy of the arrangements in place for employees to raise concerns about possible wrongdoing.

Internal Audit

- reviewed and approved the internal audit plan for 2016 and received regular reports from the internal auditor, Pricewaterhouse Coopers LLP (PwC), on internal audits

completed, progress against the agreed plan and updates on progress on the implementation of agreed actions;
- approved PwC's terms of engagement in 2016; and
- held a meeting with PwC without the presence of management.

External Audit

- reviewed reports from the external auditor, EY, on the audit of annual and regulatory accounts and the review of interim accounts;
- reviewed a report on EY's independence;
- reviewed EY's proposed external audit plan for the audit of the 2016 statutory accounts; and
- held a meeting with EY without the presence of management.

During the year a competitive tendering process for external auditors was undertaken and the Committee made a recommendation to the Board that PwC be appointed as the new external auditor. PwC's appointment was approved by the Board and will commence during 2017 following the completion of EY's audit of the regulatory accounts for the year ending 31 March 2017. Following a competitive tendering exercise in late 2016 to appoint a replacement to PwC as internal auditor, in early 2017 the Audit & Risk Committee approved the appointment of Deloitte to provide internal audit services from 2017. The Audit & Risk Committee would record its thanks to EY and PwC for their years of excellent service as external auditor and internal auditor respectively.

In addition, during the year the Audit & Risk Committee reviewed its own effectiveness as part of the Board's performance evaluation.

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 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;
- comprehensive budgeting and business planning processes with an annual budget approved by the Board;
- a continuous forecasting and monitoring process to manage financial risk;
- an integrated accounting system with a comprehensive system of management and financial reporting. A monthly financial report is prepared which includes analysis of results along with comparisons to budget, forecasts and prior year results. These are reviewed by the Executive Committee and the Board members on a monthly basis;
- the financial control framework reviewed in accordance with statutory and regulatory obligations;
- 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;
- a risk management framework including the maintenance of risk registers and on-going monitoring of key risks and mitigating actions;
- appropriately qualified and experienced personnel;
- governance team responsible for key controls testing;
- key managers formally evaluating, and the internal auditors testing, the satisfactory and effective operation of financial and operational controls;
- external auditors providing advice on specific accounting and tax issues; and
- a confidential helpline service to provide staff with a confidential, and if required, anonymous means to report fraud or ethical concerns.

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.

APPOINTMENT OF AUDITORS

Following completion of EY's audit of the regulatory accounts for the year ending 31 March 2017,
PwC will be recommended for appointment as external auditors of the Company for the audit of the statutory accounts for 2017.

MODERN SLAVERY ACT

Modern slavery is a criminal offence under the Modern Slavery Act 2015. The Act imposes obligations on organisations of a certain size. Modern Slavery can occur in various forms, including servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person's liberty by another in order to exploit them for personal or commercial gain. NIE Networks has adopted a Policy on Modern Slavery with the aim of preventing opportunities for modern slavery occurring within its business and supply chains. In accordance with the requirements of the Act, NIE Networks publishes a statement on its website on slavery and human trafficking.

GROUP STRATEGIC REPORT

The following information required in the Group Directors' Report has been included in the Group Strategic Report:

- an indication of future developments in the business (see pages 3 to 14)
- the Group's objectives and policies for financial risk management (including liquidity risk and credit risk) (see pages 6 and 7);
- a statement on the policy for disabled employees (see page 13);
- arrangements for employees to participate in the affairs of the Company (see page 14);
- an indication of activities in the Group in the field of research and development (see page 12).

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and accounts in accordance with applicable laws and regulations.

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 of the Company and of the Group and of the profit and loss of the Group taken as a whole 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'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 Group accounts have been prepared in accordance with IFRS as adopted by the EU.

The directors are responsible for keeping adequate 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 23 confirms that to the best of his/her knowledge:

- the Group 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.

The considerations set out above for the Group are also required to be addressed by the directors in preparing the accounts of the Company, in respect of which the applicable accounting standards are those which are generally accepted in the United Kingdom. The directors have elected to prepare the Company's Accounts in accordance with Generally Accepted Accounting Practice in the United Kingdom comprising Financial Reporting Standard 101 'Reduced Disclosure Framework', issued by the Financial Reporting Council.

By order of the Board

Nicholas Tarrant
Managing Director

Northern Ireland Electricity Networks Limited
Registered Office
120 Malone Road
Belfast BT9 5HT
Registered Number: NI026041

9 March 2017

We have audited the accounts of Northern Ireland Electricity Networks Limited for the year ended 31 December 2016, 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 Cash Flow Statement and the related notes 1 to 26. The financial reporting framework that has been applied in the preparation of the Group accounts is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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 Directors' Responsibilities Statement set out on pages 26-27, 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 (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 the 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 of the Company's affairs as at 31 December 2016 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 European Union; and
- the Company accounts have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion: based on the work undertaken in the course of the audit;

- the information given in the Group Strategic Report and the Group Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group Strategic Report and the Group Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Group Strategic Report or Group Directors' Report.

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.

Michael Kidd (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast

Date: 10 March 2017

The maintenance and integrity of the Northern Ireland Electricity Networks 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 accounts since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

GROUP INCOME STATEMENT
for the year ended 31 December 2016

	Note	**2016 £m**	2015 £m
Revenue	3	**246.8**	236.1
Operating costs	4	**(155.1)**	(143.8)
OPERATING PROFIT		**91.7**	92.3
Finance revenue	6	**0.1**	0.1
Finance costs	6	**(38.1)**	(37.6)
Net pension scheme interest	6	**(3.5)**	(4.1)
Net finance costs	6	**(41.5)**	(41.6)
PROFIT BEFORE TAX		**50.2**	50.7
Tax charge	7	**(4.7)**	(0.5)
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**45.5**	50.2

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

		Group		**Company**	
	Note	**2016 £m**	**2015 £m**	**2016 £m**	2015 £m
Profit for the financial year		**45.5**	50.2	**45.5**	48.7
Other comprehensive (expense) / income:					
Items not to be reclassified to profit or loss in subsequent periods:					
Re-measurement (losses) / gains on pension scheme assets and liabilities	21	**(54.3)**	12.5	**(54.3)**	12.3
Deferred tax credit / (charge) relating to components of other comprehensive expense	7	**8.0**	(4.9)	**8.0**	(4.6)
Net other comprehensive (expense) / income for the year		**(46.3)**	7.6	**(46.3)**	7.7
Total comprehensive (expense) / income for the year attributable to the equity holders of the parent company		**(0.8)**	57.8	**(0.8)**	56.4

BALANCE SHEETS
as at 31 December 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Non-current assets					
Property, plant and equipment	9	**1,577.3**	1,438.2	**1,578.1**	1,435.8
Intangible assets	10	**24.3**	29.1	**24.3**	29.1
Trade and other receivables	12	**-**	-	**-**	21.5
Derivative financial assets	16	**583.9**	454.5	**583.9**	454.5
Investments	17	**-**	-	**7.9**	7.9
		2,185.5	1,921.8	**2,194.2**	1,948.8
Current assets					
Inventories	11	**12.9**	9.9	**12.9**	9.9
Trade and other receivables	12	**60.9**	58.8	**60.9**	58.5
Derivative financial assets	16	**14.1**	10.9	**14.1**	10.9
Cash and cash equivalents	13	**9.3**	17.7	**9.3**	17.1
		97.2	97.3	**97.2**	96.4
TOTAL ASSETS		**2,282.7**	2,019.1	**2,291.4**	2,045.2
Current liabilities					
Trade and other payables	14	**136.6**	113.6	**145.8**	116.2
Current tax payable		**1.9**	5.6	**1.9**	5.6
Deferred income	15	**16.2**	11.8	**16.2**	11.8
Financial liabilities:					
Derivative financial liabilities	16	**14.1**	10.9	**14.1**	10.9
Other financial liabilities	18	**18.3**	18.2	**18.3**	18.2
Provisions	20	**1.7**	0.6	**1.7**	0.5
		188.8	160.7	**198.0**	163.2
Non-current liabilities					
Deferred tax liabilities	7	**59.6**	68.4	**59.6**	63.5
Deferred income	15	**414.9**	339.4	**414.9**	339.4
Financial liabilities:					
Derivative financial liabilities	16	**583.9**	454.5	**583.9**	454.5
Other financial liabilities	18	**592.1**	572.7	**592.1**	572.7
Provisions	20	**3.5**	8.4	**3.5**	8.0
Pension liability	21	**146.0**	104.4	**146.0**	133.8
		1,800.0	1,547.8	**1,800.0**	1,571.9
TOTAL LIABILITIES		**1,988.8**	1,708.5	**1,998.0**	1,735.1
NET ASSETS		**293.9**	310.6	**293.4**	310.1
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	**227.0**	243.7	**226.5**	243.2
TOTAL EQUITY		**293.9**	310.6	**293.4**	310.1

The profit after tax of the Company for the year is £45.5m (2015 - £48.7m).

The accounts were approved by the Board of directors and authorised for issue on 9 March 2017. They were signed on its behalf by:

Nicholas Tarrant
Director

Date: 9 March 2017

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2016

Group

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 January 2015		**36.4**	**24.4**	**6.1**	**202.3**	**269.2**
Profit for the year		-	-	-	50.2	50.2
Net other comprehensive income for the year		-	-	-	7.6	7.6
Total comprehensive income for the year		-	-	-	57.8	57.8
Effect of decreased tax rate on opening asset	7	-	-	-	0.1	0.1
Dividends to the shareholder	22	-	-	-	(16.5)	(16.5)
At 1 January 2016		**36.4**	**24.4**	**6.1**	**243.7**	**310.6**
Profit for the year		-	-	-	45.5	45.5
Net other comprehensive expense for the year		-	-	-	(46.3)	(46.3)
Total comprehensive expense for the year		-	-	-	(0.8)	(0.8)
Effect of decreased tax rate on opening asset	7	-	-	-	0.1	0.1
Dividends to the shareholder	22	-	-	-	(16.0)	(16.0)
At 31 December 2016		**36.4**	**24.4**	**6.1**	**227.0**	**293.9**

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2016

Company

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 January 2015		**36.4**	**24.4**	**6.1**	**203.2**	**270.1**
Profit for the year		-	-	-	48.7	48.7
Net other comprehensive income for the year		-	-	-	7.7	7.7
Total comprehensive income for the year		-	-	-	56.4	56.4
Effect of decreased tax rate on opening asset	7	-	-	-	0.1	0.1
Dividends to the shareholder	22	-	-	-	(16.5)	(16.5)
At 1 January 2016		**36.4**	**24.4**	**6.1**	**243.2**	**310.1**
Profit for the year		-	-	-	45.5	45.5
Net other comprehensive expense for the year		-	-	-	(46.3)	(46.3)
Total comprehensive expense for the year		-	-	-	(0.8)	(0.8)
Effect of decreased tax rate on opening asset	7	-	-	-	0.1	0.1
Dividends to the shareholder	22	-	-	-	(16.0)	(16.0)
At 31 December 2016		**36.4**	**24.4**	**6.1**	**226.5**	**293.4**

CASH FLOW STATEMENT
for the year ended 31 December 2016

	Note	Group 2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year		**45.5**	50.2
Adjustments for:			
Tax charge		**4.7**	0.5
Net finance costs	6	**41.5**	41.6
Depreciation of property, plant and equipment	9	**60.5**	55.7
Release of customers' contributions and grants	15	**(15.0)**	(11.5)
Amortisation of intangible assets	10	**5.2**	5.2
Customers' cash contributions	15	**94.9**	54.1
Defined benefit pension charge less contributions paid	21	**(16.2)**	(15.1)
Net movement in provisions	20	**(3.8)**	(0.3)
Operating cash flows before movement in working capital		**217.3**	180.4
Increase in inventories		**(3.0)**	(2.2)
Increase in trade and other receivables		**(2.1)**	(9.4)
Increase in trade and other payables		**17.9**	23.7
Decrease in working capital		**12.8**	12.1
Cash generated from operations		**230.1**	192.5
Interest received		**0.1**	0.1
Interest paid		**(37.9)**	(37.5)
Current taxes paid		**(5.9)**	(7.1)
Net cash flows from operating activities		**186.4**	148.0
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(197.4)**	(137.3)
Purchase of intangible assets		**(0.4)**	(0.2)
Net cash flows used in investing activities		**(197.8)**	(137.5)
Cash flows used in financing activities			
Dividends paid to shareholder	22	**(16.0)**	(16.5)
Amounts borrowed from group undertakings	18	**19.0**	-
Net cash flows from / (used in) financing activities		**3.0**	(16.5)
Net decrease in cash and cash equivalents		**(8.4)**	(6.0)
Cash and cash equivalents at beginning of year		**17.7**	23.7
Cash and cash equivalents at end of year	13	**9.3**	17.7

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

NOTES TO THE ACCOUNTS

1. General Information

Northern Ireland Electricity Networks Limited (NIE Networks or the Company) is a limited company incorporated, domiciled and registered in Northern Ireland (registered number NI026041). The Company's registered office address is 120 Malone Road, Belfast, BT9 5HT. The principal activities of the Company are described in the Group Strategic Report.

2. Accounting Policies

The principal accounting policies applied in the preparation of these accounts are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

New and revised accounting standards and interpretations

The following standards and amendments to existing standards and interpretations, applicable from 1 January 2016, were effective for the year, but were either not applicable or did not have a material impact on the accounting policies, financial position or performance of the Group:

Amendments to IAS 1: Disclosure Initiative

Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to IAS 27: Equity Method in Separate Financial Statements

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying Consolidation Exception

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

Annual Improvements to IFRSs – 2012 to 2014 cycle (effective 1 January 2016)

At the date of the authorisation of these accounts, the following new standards in issue are applicable but not yet effective and have not been adopted by the Group:

IFRS 9 Financial Instruments (effective 1 January 2018)

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)

IFRS 16 Leases (effective 1 January 2019)

The directors are currently assessing the impact of the new and amended standards.

Except for IFRS 16 Leases, the impact of which will be assessed during 2017, the directors do not currently anticipate that the adoption of the standards and interpretations will have a material impact on the Group's accounts in the period of initial application. The adoption of the standards and interpretations may however result in certain changes in the presentation of the Group's accounts from 2017 onwards.

Basis of Preparation
The Group 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 Company accounts have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The accounts are presented in Sterling (£) with all values rounded to the nearest £100,000 except where otherwise indicated.

2. Accounting Policies (continued)

Basis of Preparation *(continued)*
The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirements of paragraphs 10(d), 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*, which are requirements relating to cash flows, comparative information, statement of compliance and the management of capital;
b) the requirements of IAS 7 *Statement of Cash Flows* in preparing a cash flow statement for the Company;
c) the requirements of paragraphs 17 and 18A of IAS 24 *Related Party Disclosures* relating to the disclosure of key management personnel compensation; and
d) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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 annual report and accounts.

Basis of consolidation
The Group accounts consolidate the accounts of the Company and entities controlled by the Company (its subsidiaries), NIE Networks Services Limited and NIE Finance PLC. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power, directly or indirectly, to govern the financial and operating policies of the entity. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. 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.

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

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.

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 10 years
Vehicles and mobile plant – up to 5 years

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.

2. Accounting Policies (continued)

Property, plant and equipment *(continued)*
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 de-recognition 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 estimated costs of completion and the estimated costs necessary to make the sale.

Financial instruments
The accounting policies for the financial instruments of the Group are set out below. The related objectives and policies for financial risk management (including capital management and liquidity risk, credit risk and interest rate risk) are included in the strategic report.

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 amortised cost 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 amortised cost.

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 qualifying 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 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, 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. Re-measurements comprising of actuarial gains and losses and return on plan assets are recognised immediately in the period in which they occur and are presented in the statement of comprehensive income. Re-measurements 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.

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 is 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

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.

	2016 **£m**	2015 £m
Revenue:		
Sales revenue	**232.3**	225.1
Release of customer contributions from deferred income	**14.5**	11.0
	246.8	236.1
Interest receivable	**0.1**	0.1
	246.9	236.2

During the year, three customers accounted for sales revenue totalling £178.9m (2015 – three customers accounted for £178.6m).

Geographical information
The Group is of the opinion that all revenue is derived from the United Kingdom on the basis that the Group's assets, from which revenue is derived, are all located within the United Kingdom.

4. Operating Costs

On 1 January 2016, the operating activities and employees of NIE Networks Services Limited transferred to NIE Networks in order to simplify the Group's structure. As a result, certain prior year operating costs have been reclassified from other operating charges to employee costs. From a Group perspective it is deemed that it is more accurate to classify these as employee costs to be consistent with 2016.

Operating costs are analysed as follows:

	2016 **£m**	2015 £m
Employee costs (note 5)	**25.2**	27.5
Depreciation and amortisation	**65.2**	60.4
Other operating charges	**64.7**	55.9
	155.1	143.8

Operating costs include:		
Depreciation charge on property, plant and equipment	**60.5**	55.7
Amortisation of intangible assets	**5.2**	5.2
Amortisation of grants	**(0.5)**	(0.5)
Minimum payments due under operating leases	**3.2**	3.2
Cost of inventories recognised as an expense	**1.8**	1.7

Operating costs include:

Auditor's remuneration	**2016** **£'000**	2015 £'000
Fees payable to the Group and Company auditors for the audit of the accounts	**23**	23
Fees payable to the Group and Company auditors for other services:		
The audit of the company's subsidiaries pursuant to legislation	**13**	13
Audit related assurance services	**30**	30
Tax compliance services	**2**	2

5. Employees

Employee costs

As explained in note 4, certain prior year group costs, including employee costs, have been reclassified for consistency with the current year presentation. For information, the Company employee costs are also shown below.

	Group		**Company**	
	2016 **£m**	2015 £m	**2016** **£m**	2015 £m
Salaries	**51.1**	48.0	**51.1**	14.2
Social security costs	**5.3**	4.9	**5.3**	1.5
Pension costs				
- defined contribution plans	**3.7**	3.3	**3.7**	1.0
- defined benefit plans	**7.7**	8.6	**7.7**	3.6
	67.8	64.8	**67.8**	20.3
Less: amounts capitalised to property, plant and equipment and intangible assets	**(42.6)**	(37.3)	**(42.6)**	(6.1)
Charged to the income statement	**25.2**	27.5	**25.2**	14.2

5. Employees (continued)

Average and actual headcount for the Group is disclosed in the table below:

	Average during the year		Actual headcount as at 31 December	
	2016 Number	2015 Number	**2016 Number**	2015 Number
Management, administration and support	**316**	286	**320**	293
Electrical services	**942**	919	**957**	929
Employee numbers	**1,258**	1,205	**1,277**	1,222

Average and actual headcount for the Company is disclosed in the table below:

	Average during the year		Actual headcount as at 31 December	
	2016 Number	2015 Number	**2016 Number**	2015 Number
Management, administration and support	**316**	196	**320**	187
Electrical services	**942**	142	**957**	134
Employee numbers	**1,258**	338	**1,277**	321

Directors' emoluments

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

	2016 £m	2015 £m
Emoluments in respect of qualifying services	**0.6**	0.6

Emoluments in respect of qualifying services include deferred remuneration awarded in the current and prior year but payable in future years. 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 either the current year or the previous year.

The number of directors to whom retirement benefits are accruing, under defined benefit and defined contribution pension schemes, was as follows:

	2016 Number	2015 Number
Defined benefit pension scheme	**-**	-
Defined contribution scheme	**1**	1

Aggregate contributions by the Company to defined contribution pension schemes in respect of the directors during the year was £17,375 (2015 - £57,000).

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

As at 31 December	**2016 £'000**	2015 £'000
Emoluments	**299**	272
Total accrued pension at 31 December (per annum)	**-**	-

The highest paid director is a member of the Company's defined contribution scheme.

6. Net Finance Costs

	2016 £m	2015 £m
Interest receivable:		
Bank interest receivable	**0.1**	0.1
Interest payable:		
£175m bond	**(12.0)**	(12.0)
£400m bond	**(25.5)**	(25.5)
Amounts paid to parent undertakings (note 26)	**(0.5)**	-
	(38.0)	(37.5)
Less: capitalised interest	**0.2**	0.2
Total interest charged to the income statement	**(37.8)**	(37.3)
Other finance costs:		
Amortisation of financing charges	**(0.3)**	(0.3)
Total finance costs	**(38.1)**	(37.6)
Net pension interest cost	**(3.5)**	(4.1)
Net finance costs	**(41.5)**	(41.6)

Interest recognised in the balance sheet during the year was capitalised to qualifying assets (infrastructure assets under construction) using a weighted average interest rate of 6.48% (2015 - 6.53%).

Funds from Operations (FFO) Interest Cover Ratio

The Group considers the ratio of FFO to interest paid to be a key measure of the Group's financial health. FFO interest cover indicates the Group's ability to fund interest payments from cash flows generated by operations. The calculation of the ratio, as reported in the Financial Review, is shown below:

	2016 £m	2015 £m
Operating profit	**91.7**	92.3
Add back depreciation and amortisation	**65.2**	60.4
Deduct pension deficit repair contributions	**(16.9)**	(16.7)
Deduct amortisation of customer contributions	**(14.5)**	(11.0)
Deduct tax paid	**(5.9)**	(7.1)
Funds from operations	**119.6**	117.9
Interest paid	**(37.9)**	(37.5)
FFO to interest paid (times)	**3.2**	3.1

Pension deficit repair contributions of £16.9m (2015 - £16.7m) reflect contributions in respect of past service costs as explained in note 21.

7. Tax Charge

(i) Analysis of charge during the year

Group Income Statement	2016 £m	2015 £m
Current tax charge		
UK corporation tax at 20.00% (2015 – 20.25%)	**5.4**	6.6
Total current income tax	**5.4**	6.6
Deferred tax credit		
Origination and reversal of temporary differences in current year	**4.3**	3.7
Origination and reversal of temporary differences relating to prior years	**-**	(0.3)
Effect of decreased tax rate on opening liability	**(5.0)**	(9.5)
Total deferred tax credit	**(0.7)**	(6.1)
Total tax charge	**4.7**	0.5

Tax relating to items (credited) / charged in other comprehensive income

	2016 £m	2015 £m
Deferred tax		
Deferred tax (credit) / charge relating to components of other comprehensive income	**(9.2)**	2.2
Effect of decreased tax rate on opening asset	**1.2**	2.7
	(8.0)	4.9

Tax relating to items charged to changes in equity

	2016 £m	2015 £m
Deferred tax		
Effect of decreased rate on opening asset	**(0.1)**	**(0.1)**
	(0.1)	**(0.1)**

(ii) Reconciliation of total tax charge

The tax charge in the Group Income Statement for the year is lower (2015 – lower) than the standard rate of corporation tax in the UK of 20.00% (2015 – 20.25%). The differences are reconciled below:

	2016 £m	2015 £m
Accounting profit before tax charge	**50.2**	50.7
Accounting profit multiplied by the UK standard rate of corporation tax of 20.00% (2015 – 20.25%)	**10.0**	10.3
Tax effect of:		
Impact of deferred tax at reduced rate	**(5.7)**	(10.0)
Other permanent differences	**0.4**	0.5
Tax over-provided in previous years	**-**	(0.3)
Tax charge for the year	**4.7**	0.5

7. Tax Charge (continued)

(iii) Deferred tax

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

	Group		Company	
	2016 **£m**	2015 £m	**2016** **£m**	2015 £m
Deferred tax assets				
Pension liability	**24.8**	18.8	**24.8**	24.1
Other temporary differences	**0.3**	0.8	**0.3**	0.8
	25.1	19.6	**25.1**	24.9
Deferred tax liabilities				
Accelerated capital allowances	**(83.9)**	(87.2)	**(83.9)**	(87.6)
Held-over gains on property disposals	**(0.8)**	(0.8)	**(0.8)**	(0.8)
	(84.7)	(88.0)	**(84.7)**	(88.4)
Net deferred tax liability	**(59.6)**	(68.4)	**(59.6)**	(63.5)

Deferred tax has been calculated at 17.0% as at 31 December 2016 (2015 – 18.0%) reflecting future reductions in the corporation tax rate enacted at the balance sheet date.

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

	2016 **£m**	2015 £m
Accelerated capital allowances	**(3.3)**	(8.3)
Temporary differences in respect of pensions	**2.0**	1.9
Other temporary differences	**0.6**	0.3
Deferred tax credit	**(0.7)**	(6.1)

8. Profit for the Financial Year

The profit of the Company is £45.5m (2015 - £48.7m). 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 January 2015	2,110.5	5.1	69.6	8.6	2,193.8
Additions	138.6	-	4.7	0.5	143.8
At 31 December 2015	**2,249.1**	**5.1**	**74.3**	**9.1**	**2,337.6**
Additions	193.8	-	5.5	0.3	199.6
Write offs	-	-	(5.5)	(7.0)	(12.5)
At 31 December 2016	**2,442.9**	**5.1**	**74.3**	**2.4**	**2,524.7**
Depreciation:					
At 1 January 2015	781.9	1.6	54.0	6.2	843.7
Charge for the year	51.6	0.1	3.2	0.8	55.7
At 31 December 2015	**833.5**	**1.7**	**57.2**	**7.0**	**899.4**
Charge for the year	55.7	0.1	3.8	0.9	60.5
Write off of accumulated depreciation	-	-	(5.5)	(7.0)	(12.5)
At 31 December 2016	**889.2**	**1.8**	**55.5**	**0.9**	**947.4**
Net book value:					
At 31 December 2015	1,415.6	3.4	17.1	2.1	1,438.2
At 31 December 2016	**1,553.7**	**3.3**	**18.8**	**1.5**	**1,577.3**

Infrastructure assets include amounts in respect of assets under construction of £68.1m (2015 - £58.9m).

9. Property, Plant and Equipment (continued)

Company	Infrastructure assets £m	Non-operational land and buildings £m	Fixtures and equipment £m	Vehicles and mobile plant £m	Total £m
Cost:					
At 1 January 2015	2,111.7	5.1	63.7	-	2,180.5
Additions	139.0	-	4.0	-	143.0
At 31 December 2015	**2,250.7**	**5.1**	**67.7**	**-**	**2,323.5**
Additions	193.8	-	5.5	0.3	199.6
Transfer from subsidiary undertaking	-	-	1.1	2.1	3.2
At 31 December 2016	**2,444.5**	**5.1**	**74.3**	**2.4**	**2,526.3**
Depreciation:					
At 1 January 2015	**782.3**	**1.6**	**48.8**	-	**832.7**
Charge for the year	52.0	0.1	2.9	-	55.0
At 31 December 2015	**834.3**	**1.7**	**51.7**	**-**	**887.7**
Charge for the year	55.7	0.1	3.8	0.9	60.5
At 31 December 2016	**890.0**	**1.8**	**55.5**	**0.9**	**948.2**
Net book value:					
At 31 December 2015	1,416.4	3.4	16.0	-	1,435.8
At 31 December 2016	**1,554.5**	**3.3**	**18.8**	**1.5**	**1,578.1**

Infrastructure assets include amounts in respect of assets under construction of £68.1m (2015 - £58.9m).

Transfers from subsidiary undertaking reflect the transfer of assets from NIE Networks Services to NIE Networks at net book value during the year. Further details of the transfer are disclosed in note 17.

10. Intangible Assets

Computer software	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Cost:				
At the beginning of the year	**102.6**	102.4	**102.5**	102.3
Additions acquired externally	**0.4**	0.2	**0.4**	0.2
Write offs	**(0.1)**	-	**-**	-
At the end of the year	**102.9**	102.6	**102.9**	102.5
Amortisation / impairment:				
At the beginning of the year	**73.5**	68.3	**73.4**	68.2
Amortisation charge for the year	**5.2**	5.2	**5.2**	5.2
Write offs	**(0.1)**	-	**-**	-
At the end of the year	**78.6**	73.5	**78.6**	73.4
Net book value:				
At the beginning of the year	**29.1**	34.1	**29.1**	34.1
At the end of the year	**24.3**	29.1	**24.3**	29.1

Software assets include amounts in respect of assets under construction amounting to £nil (2015 - £0.3m).

11. Inventories

Group and Company	2016 £m	2015 £m
Materials and consumables	**12.4**	8.8
Work-in-progress	**0.5**	1.1
	12.9	9.9

12. Trade and Other Receivables

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Current				
Trade receivables (including unbilled consumption)	**55.0**	53.3	**55.0**	53.3
Other receivables	**0.8**	0.6	**0.8**	0.6
Amounts owed by fellow subsidiary undertakings (note 26)	**2.6**	3.0	**2.6**	3.0
Prepayments	**2.5**	1.9	**2.5**	1.6
	60.9	58.8	**60.9**	58.5
Non-current				
Amounts owed by subsidiary undertaking	**-**	-	**-**	21.5

Trade receivables include amounts relating to unbilled consumption of £16.6m (2015 - £15.0m).

Non-current amounts owed by group undertakings to the Company at 31 December 2015 reflected a loan with NIE Networks Services Limited which was repaid during 2016.

The largest trade receivable at the year end, due from one customer, is £9.0m (2015 - £9.4m).

12. Trade and Other Receivables (continued)

Trade receivables are stated net of an allowance of £0.3m (2015 - £0.3m) for estimated irrecoverable amounts based on past default experience. There are no allowances for estimated irrecoverable amounts included in 'amounts owed by fellow subsidiary undertakings' which are all within credit terms.

Group and Company	2016 £m	2015 £m
At the beginning of the year	0.3	0.4
Increase in allowance	-	0.1
Bad debts written off	-	(0.2)
At the end of the year	**0.3**	0.3

The allowance of £0.3m includes £0.2m (2015 - £0.2m) in respect of individual balances impaired based on the age of debt and past default experience.

The following shows an aged analysis of current trade receivables:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Within credit terms:				
Current	**48.5**	48.0	**48.5**	48.0
Past due but not impaired:				
Less than 30 days	**4.5**	1.2	**4.5**	1.2
30 - 60 days	**0.7**	0.7	**0.7**	0.7
60 - 90 days	**1.0**	0.7	**1.0**	0.7
+ 90 days	**0.3**	2.7	**0.3**	2.7
	55.0	53.3	**55.0**	53.3

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.

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

13. Cash and Cash Equivalents

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cash at bank and in hand	**9.3**	13.3	**9.3**	12.7
Short-term deposits	**-**	4.4	**-**	4.4
	9.3	17.7	**9.3**	17.1

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 one month 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	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Trade payables	**18.2**	19.1	**18.2**	18.3
Payments received on account	**67.9**	52.4	**67.9**	52.4
Amounts owed to fellow subsidiary undertakings (note 26)	**4.5**	1.8	**4.5**	1.8
Amounts owed to subsidiary undertakings	**-**	-	**9.2**	6.5
Tax and social security	**9.4**	8.7	**9.4**	8.0
Accruals	**27.8**	23.3	**27.8**	20.9
Other payables	**8.8**	8.3	**8.8**	8.3
	136.6	113.6	**145.8**	116.2

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**	**10.1**	**10.6**
Non-current	**6.4**	**291.6**	**298.0**
Total at 1 January 2015	**6.9**	**301.7**	**308.6**
Receivable	-	54.1	54.1
Released to income statement	(0.5)	(11.0)	(11.5)
Current	**0.5**	**11.3**	**11.8**
Non-current	**5.9**	**333.5**	**339.4**
Total at 31 December 2015	**6.4**	**344.8**	**351.2**
Receivable	-	94.9	94.9
Released to income statement	(0.5)	(14.5)	(15.0)
Current	**0.5**	**15.7**	**16.2**
Non-current	**5.4**	**409.5**	**414.9**
Total at 31 December 2016	**5.9**	**425.2**	**431.1**

16. Derivative Financial Instruments

Group and Company - Interest rate swaps	2016 £m	2015 £m
Current assets	**14.1**	10.9
Non-current assets	**583.9**	454.5
	598.0	465.4
Current liabilities	**(14.1)**	(10.9)
Non-current liabilities	**(583.9)**	(454.5)
	(598.0)	(465.4)

The Company has held a £550m portfolio of inflation linked interest rate swaps since December 2010. The fair value of inflation linked interest rate swaps is affected by relative movements in interest rates and market expectations of future retail price index (RPI) movements.

During 2014 the Company, and its counterparty banks, together agreed a restructuring of the swaps, including amendments to certain critical terms. These changes included an extension of the mandatory break period in the swaps from 2015 to 2022, including immediate settlement of accretion payments of £77.7m (previously due for payment in 2015), amendments to the fixed interest rate element of the swaps and an increase in the number of swap counterparties. Future accretion payments are now scheduled to occur every 5 years, starting in 2018, with remaining accretion paid on maturity.

Arising from lower forward interest rates and higher RPI forward prices during the year, negative fair value movements of £145.4m occurred in 2016 (2015 – positive fair value movements of £21.4m). These have been recognised in finance costs in the income statement.

At the same time that the restructuring took effect the Company entered into RPI linked interest rate swap arrangements with ESBNI Limited, the immediate parent undertaking of the Company, which have identical matching terms to the restructured swaps. The back to back matching swaps with ESBNI Limited ensure that there is no net effect on the accounts of the Company and that any risk to financial exposure is borne by ESBNI Limited. The fair value movements have been recognised in finance costs in the income statement effectively offsetting the fair value movements of interest rate swap liabilities.

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

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

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

The fair value of interest rate swaps as at 31 December 2016 is considered by the Company to fall within the level 2 fair value hierarchy. The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between level 1 or 3 of the hierarchy during the year.

Independent valuations are used in measuring the interest rate swaps and validated using the present valuation of expected cash flows using a constructed zero-coupon discount curve. The zero-coupon curve uses 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 £63.8m / (£65.2m) (2015 - £50.5m / (£51.1m)). However, the swap arrangements entered into with ESBNI hedge the Company's cash flows 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 £63.8m / (£65.2m) (2015 - £50.5m / (£51.1m)) 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.

17. Investments

Company – Investment in subsidiaries

	2016 £m	2015 £m
Cost:		
At the beginning and end of the year	**7.9**	7.9

The Company holds the entire share capital of NIE Networks Services Limited and NIE Finance PLC which have been fully consolidated into the accounts. All of the Company's subsidiaries are incorporated in the United Kingdom and hold registered office addresses at 120 Malone Road, Belfast, BT9 5HT.

The principal activity of NIE Networks Services Limited until 31 December 2015 was to provide construction, maintenance, metering and other services to the Company. As NIE Networks Services Limited provided services to the Company, revenue on consolidation is £nil. On 1 January 2016, all assets, operations and employees of NIE Network Services Limited transferred to NIE Networks and NIE Networks Services Limited ceased operational activity. A summary of the assets and liabilities transferred and the consideration payable is shown below:

	Fair Value of Assets transferred £m
Assets	
Property plant and equipment	**3.2**
Pension asset	**29.4**
Trade and other receivables	**7.1**
Cash and cash equivalents	**0.6**
	40.3
Liabilities	
Trade and other payables	**4.2**
Provisions	**0.5**
Deferred tax liabilities	**4.9**
	9.6
Net assets transferred	**30.7**
Purchase consideration transferred	**30.7**
Purchase consideration made up of:	
Repayment of existing intercompany loan	**21.5**
Intercompany debtor	**9.2**
	30.7

The principal activity of NIE Finance PLC is the provision of financing services, being the issuer of the £400m bond which was on-lent to the Company. Further details of the bond issue are included in note 18.

Dormant subsidiaries

The Company holds 100% of the share capital of Northern Ireland Electricity Limited and NIE Limited. These companies are dormant and the carrying value of these investments as at 31 December 2016 is £nil (2015 - £nil).

18. Other Financial Liabilities

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Current				
Interest payable on £175m bond	**3.4**	3.4	**3.4**	3.4
Interest payable on £400m bond	**14.8**	14.8	**-**	-
Interest payable to parent undertaking (note 26)	**0.1**	-	**0.1**	-
Interest payable to subsidiary undertaking	**-**	-	**14.8**	14.8
	18.3	18.2	**18.3**	18.2
Non-current				
£175m bond	**174.6**	174.4	**174.6**	174.4
£400m bond	**398.4**	398.3	**-**	-
Amounts owed to parent undertaking (note 26)	**19.1**	-	**19.1**	-
Amounts owed to subsidiary undertaking	**-**	-	**398.4**	398.3
	592.1	572.7	**592.1**	572.7

Loans and other borrowings outstanding are repayable as follows:

Group and Company	**2016**	2015
	£m	£m
In one year or less or on demand	**18.3**	18.2
Between two and five years	**193.7**	174.4
In more than five years	**398.4**	398.3
	610.4	590.9

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% which is payable annually in arrears on 18 September. The bond issue incurred £2.6m of costs associated with raising finance;
- the 15 year £400m bond is repayable in 2026 and carries a fixed rate of interest of 6.375% which is payable annually in arrears on 2 June. The bond issue incurred £2.1m of costs associated with raising finance. In back to back arrangements, NIE Finance PLC has a loan of £400m with 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% annually in arrears on 2 June;
- amounts owed to parent undertaking represents a drawdown of £19.0m from the Company's £150.0m Revolving Credit Facility (RCF) provided by ESB which has a maturity date of September 2018. Interest is charged at 1 month LIBOR plus 0.75% and rolled onto the loan principal. Commitment fees are charged on the undrawn element of the facility.

The £175m and £400m bonds, which are listed on the London Stock Exchange's regulated market, had fair values at 31 December 2016 of £194.0m (2015 - £197.2m) and £553.6m (2015 - £519.4m) respectively, based on current market prices. The Company's £400m back-to-back loan had a fair value at 31 December 2016 of £553.6m (2015 - £519.4m) based on the fair value of the £400m bond.

The fair value of bonds as at 31 December 2016 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. Other Financial Liabilities (continued)

Given that 97% of the Group and Company borrowings carry fixed interest rates, the Group and Company were not significantly exposed to movements in interest rates during the year.

The table below summarises the maturity profile of the Group's financial liabilities (excluding tax and social security) based on contractual undiscounted payments.

At 31 December 2016	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	187.0	-	199.0
£400m bond (including interest payable)	-	-	25.5	102.0	527.5	655.0
RCF (including interest payable)	-	0.1	0.2	19.5	-	19.8
Trade and other payables	67.9	59.3	-	-	-	127.2
Interest rate swap liabilities	-	-	14.1	117.2	525.9	657.2
	67.9	**59.4**	**51.8**	**425.7**	**1,053.4**	**1,658.2**

At 31 December 2015	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	199.1	-	211.1
£400m bond (including interest payable)	-	-	25.5	102.0	553.0	680.5
Trade and other payables	60.7	44.2	-	-	-	104.9
Interest rate swap liabilities	-	-	10.9	85.7	468.5	565.1
	60.7	44.2	48.4	386.8	1,021.5	1,561.6

The table below summarises the maturity profile of the Company's financial liabilities (excluding tax and social security) based on contractual undiscounted payments.

At 31 December 2016	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	187.0	-	199.0
Amounts owed to subsidiary undertaking	-	-	25.5	102.0	527.5	655.0
RCF (including interest payable)	-	0.1	0.2	19.5	-	19.8
Trade and other payables	67.9	68.5	-	-	-	136.4
Interest rate swap liabilities	-	-	14.1	117.2	525.9	657.2
	67.9	**68.6**	**51.8**	**425.7**	**1,053.4**	**1,667.4**

At 31 December 2015	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	199.1	-	211.1
Amounts owed to subsidiary undertaking	-	-	25.5	102.0	553.0	680.5
Trade and other payables	60.7	47.5	-	-	-	108.2
Interest rate swap liabilities	-	-	10.9	85.7	468.5	565.1
	60.7	47.5	48.4	386.8	1,021.5	1,564.9

19. Analysis of Net Debt

Group	At 1 January 2016 £m	Cash flow £m	Non cash movement £m	At 31 December 2016 £m
Cash and cash equivalents	**17.7**	(8.4)	-	**9.3**
Interest payable on £175m bond	**(3.4)**	12.0	(12.0)	**(3.4)**
Interest payable on £400m bond	**(14.8)**	25.5	(25.5)	**(14.8)**
Interest payable to parent undertaking	**-**	0.4	(0.5)	**(0.1)**
£175m bond	**(174.4)**	-	(0.2)	**(174.6)**
£400m bond	**(398.3)**	-	(0.1)	**(398.4)**
Amounts owed to parent undertaking	**-**	(19.0)	(0.1)	**(19.1)**
	(573.2)	10.5	(38.4)	**(601.1)**

Company	At 1 January 2016 £m	Cash Flow £m	Non cash movement £m	At 31 December 2016 £m
Cash and cash equivalents	**17.1**	(7.8)	-	**9.3**
Interest payable on £175m bond	**(3.4)**	12.0	(12.0)	**(3.4)**
Interest payable to parent undertaking	**-**	0.4	(0.5)	**(0.1)**
Interest payable to subsidiary undertaking	**(14.8)**	25.5	(25.5)	**(14.8)**
£175m bond	**(174.4)**	-	(0.2)	**(174.6)**
Amounts owed to parent undertaking	**-**	(19.0)	(0.1)	**(19.1)**
Amounts owed to subsidiary undertaking	**(398.3)**	-	(0.1)	**(398.4)**
	(573.8)	11.1	(38.4)	**(601.1)**

20. Provisions

Group	Environment £m	Liability and damage claims £m	Total £m
Current	-	0.6	0.6
Non-current	4.6	3.8	8.4
Total at 1 January 2016	**4.6**	**4.4**	**9.0**
Applied in the year	-	(0.5)	(0.5)
Release to income statement	(3.0)	(0.3)	(3.3)
Current	**1.1**	**0.6**	**1.7**
Non-current	**0.5**	**3.0**	**3.5**
Total at 31 December 2016	**1.6**	**3.6**	**5.2**

Company	Environment £m	Liability and damage claims £m	Total £m
Current	-	0.5	0.5
Non-current	4.6	3.4	8.0
Total at 1 January 2016	**4.6**	**3.9**	**8.5**
Applied in the year	-	(0.5)	(0.5)
Transfer from subsidiary undertaking (note 17)	-	0.5	0.5
Release to income statement	(3.0)	(0.3)	(3.3)
Current	**1.1**	**0.6**	**1.7**
Non-current	**0.5**	**3.0**	**3.5**
Total at 31 December 2016	**1.6**	**3.6**	**5.2**

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 the expenditure relating to the non-current portion of the provision 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 on-going third party litigation matters and employee claims. The non current element of these provisions are expected to be utilised within a period not exceeding five years.

Transfers from subsidiary undertaking relate to amounts transferred from NIE Networks Services to NIE Networks on 1 January 2016. Further details of the transfer are disclosed in note 17.

21. Pension Commitments

Most employees of the Group are members of Northern Ireland Electricity Pension Scheme (NIEPS or the scheme). The scheme has two sections: ‘Options’ which is a money purchase arrangement whereby the Group generally matches the members’ contributions up to a maximum of 7% 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 2014 and showed a deficit of £110.7m. The Company is paying deficit contributions of £16.7m per annum (increasing in line with inflation) from 1 April 2015. The Company also pays contributions of 35.1% 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 21% of the liabilities are attributable to current employees, 5% to former employees and 74% 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 13 years (2015 – 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)

Mercer, the actuaries to NIEPS, have provided a valuation of Focus under IAS 19 as at 31 December 2016 based on the following assumptions (in nominal terms) and using the projected unit credit method:

	2016	2015
Rate of increase in pensionable salaries (per annum)	**3.20%**	3.00%
Rate of increase in pensions in payment (per annum)	**2.10%**	1.90%
Discount rate (per annum)	**2.70%**	3.80%
Inflation assumption (CPI) (per annum)	**2.10%**	1.90%
Life expectancy:		
Current pensioners (at age 60) - males	**27.3 years**	27.1 years
Current pensioners (at age 60) - females	**29.8 years**	29.7 years
Future pensioners (at age 60) - males	***29.2 years**	*29.1 years
Future pensioners (at age 60) - females	***31.8 years**	*31.7 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 at 31 December 2016 shows a net pension liability (before deferred tax) of £146.0m (2015 - £104.4m). A 0.5% increase / decrease in the assumed discount rate would decrease / increase the net pension liability by £79.1m (2015 - £71.1m). A 0.5% increase / decrease in the assumed inflation rate would increase / decrease the net pension liability by £68.9m (2015 - £71.9m). A one year increase / decrease in life expectancy would increase / decrease the net pension liability by £42.4m (2015 - £31.2m).

Assets and Liabilities

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

	Group		**Company**	
	Value at 31 December 2016 £m	Value at 31 December 2015 £m	**Value at 31 December 2016 £m**	Value at 31 December 2015 £m
Equities – quoted	**236.7**	212.4	**236.7**	165.6
Bonds – quoted	**252.5**	202.3	**252.5**	157.8
Diversified growth funds – quoted	**397.2**	395.6	**397.2**	308.5
Other assets	**213.5**	175.4	**213.5**	136.8
Cash	**5.5**	4.9	**5.5**	3.8
Total market value of assets	**1,105.4**	990.6	**1,105.4**	772.5
Actuarial value of liabilities	**(1,251.4)**	(1,095.0)	**(1,251.4)**	(906.3)
Net pension liability	**(146.0)**	(104.4)	**(146.0)**	(133.8)

Other assets include inflation-linked investments and credit funds.

21. Pension Commitments (continued)

Changes in the market value of assets

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Market value of assets at the beginning of the year	**990.6**	1,025.6	**772.5**	801.7
Transfer from subsidiary undertaking (note 17)	**-**	-	**218.1**	-
Interest income on scheme assets	**37.0**	35.3	**37.0**	27.6
Contributions from employer	**23.9**	23.7	**23.9**	19.2
Contributions from scheme members	**0.4**	0.4	**0.4**	0.2
Benefits paid	**(57.7)**	(56.7)	**(57.7)**	(47.1)
Administration expenses paid	**(1.1)**	(1.1)	**(1.1)**	(0.9)
Re-measurement gains / (losses) on scheme assets	**112.3**	(38.4)	**112.3**	(30.0)
Bulk transfer in respect of returning members	**-**	1.9	**-**	1.9
Settlement payments from plan assets	**-**	(0.1)	**-**	(0.1)
Market value of assets at the end of the year	**1,105.4**	990.6	**1,105.4**	772.5

Changes in the actuarial value of liabilities

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Actuarial value of liabilities at the beginning of the year	**1,095.0**	1,153.5	**906.3**	958.4
Transfer from subsidiary undertaking (note 17)	**-**	-	**188.7**	-
Interest expense on pension liability	**40.5**	39.4	**40.5**	32.7
Current service cost	**6.5**	7.3	**6.5**	2.4
Curtailment loss	**0.1**	0.1	**0.1**	0.1
Contributions from scheme members	**0.4**	0.4	**0.4**	0.2
Benefits paid	**(57.7)**	(56.7)	**(57.7)**	(47.1)
Effect of changes in demographic assumptions	**-**	16.6	**-**	13.8
Effect of changes in financial assumptions	**173.8**	(50.5)	**173.8**	(42.0)
Effect of experience adjustments	**(7.2)**	(17.0)	**(7.2)**	(14.1)
Bulk transfer in respect of returning members	**-**	1.9	**-**	1.9
Actuarial value of liabilities at the end of the year	**1,251.4**	1,095.0	**1,251.4**	906.3

A number of members of the Focus section of the pension scheme contracted to transfer their past service benefits to pension schemes outside the NIEPS in 2014. This bulk transfer of assets and liabilities gave rise to a net settlement charge of £nil (2015 – charge of £0.1m) recognised in the Income Statement.

The bulk transfer of assets and liabilities in respect of returning members in 2015 relates to the transfer back into the NIEPS of a number of former members who had previously transferred their past service benefits to a former NIEPS participating employer. This transfer resulted in a net settlement charge of £nil and had no impact on the net pension liability.

The Group expects to make contributions of approximately £23.5m to Focus in 2017.

The Group's share of the 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	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Current service cost	**(6.5)**	(7.3)	**(6.5)**	(2.4)
Administration expenses paid	**(1.1)**	(1.1)	**(1.1)**	(0.9)
Settlement cost in relation to bulk transfer	**-**	(0.1)	**-**	(0.1)
Curtailment loss	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Total operating charge	**(7.7)**	(8.6)	**(7.7)**	(3.5)

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Interest income on scheme assets	**37.0**	35.3	**37.0**	27.6
Interest expense on liabilities	**(40.5)**	(39.4)	**(40.5)**	(32.7)
Net pension scheme interest expense	**(3.5)**	(4.1)	**(3.5)**	(5.1)

The actual return on Focus assets was a gain of £149.3m for the Group and Company (2015 - loss of £3.1m Group and loss of £2.4m for the Company).

Analysis of amounts recognised in the Statement of Comprehensive Income

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Re-measurement gains / (losses) on scheme assets	**112.3**	(38.4)	**112.3**	(30.0)
Actuarial (losses) / gains on scheme liabilities	**(166.6)**	50.9	**(166.6)**	42.3
Net (losses) / gains	**(54.3)**	12.5	**(54.3)**	12.3

The cumulative actuarial losses recognised in the Group and Company Statements of Comprehensive Income since 1 April 2004 are £159.3m and £161.4m respectively (2015 – £105.0m and £107.1m 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.

22. Share Capital and Equity

	Group		Company	
	2016	2015	**2016**	2015
	£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	227.0	243.7	**226.5**	243.2
	293.9	310.6	**293.4**	310.1

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:	**2016**	2015
	£m	£m
145,566,431 ordinary shares of 25p each	**36.4**	36.4

Dividend
The following dividends were paid by the Group

	2016	2015
	£m	£m
11.0 pence per allotted share (2015: 11.3 pence)	**16.0**	16.5

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:

	2016	2015
	£m	£m
Within one year	**2.8**	2.0
After one year but not more than five years	**7.0**	4.1
More than five years	**9.5**	9.7
	19.3	15.8

24. Commitments and Contingent Liabilities

(i) Capital commitments
At 31 December 2016 the Group and Company had contracted future capital expenditure in respect of property, plant and equipment of £15.3m (2015 - £15.3m) and computer assets of £1.1m (2015 - £1.6m).

(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.

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

Although the Tribunal stated that evidence of a loss of value was insufficient, compensation was awarded in both cases using an 'intuitive approach'. As the Company knew of no precedent for the use of such an approach, the Company lodged an appeal to the Court of Appeal. The appeal decision is expected in spring 2017 and until then, it remains uncertain as to whether a liability will arise. Therefore the Company has not provided for any compensation awarded by the Tribunal in these accounts.

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. Key management personnel of the Group comprise the directors of the Company and the executive team.

	2016 £m	2015 £m
Salaries and short-term employee benefits	**1.5**	1.5
Post-employment benefits	**0.2**	0.3
Other long-term benefits	**0.1**	0.1
	1.8	1.9

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 ESB's registered office at Two Gateway, East Wall Road, Dublin 3 DO3 A995. A full list of the subsidiary undertakings of ESB is included in its accounts.

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

26. Related Party Disclosures (continued)

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

	Interest charges £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 2016						
ESB	**(0.5)**	**-**	**-**	**-**	**-**	**(19.2)**
ESB subsidiaries	**-**	**13.7**	**(3.4)**	**(16.0)**	**2.6**	**(4.5)**
	(0.5)	**13.7**	**(3.4)**	**(16.0)**	**2.6**	**(23.7)**
Year ended 31 December 2015						
ESB	-	-	-	-	-	-
ESB subsidiaries	-	16.3	(3.3)	(18.0)	3.0	1.8
	-	16.3	(3.3)	(18.0)	3.0	1.8

Transactions with ESB group undertakings are determined on an arm's length basis and outstanding balances with group undertakings are unsecured. Interest charges and amounts owed to ESB relate to the RCF provided by ESB. Revenue from and amounts owed by ESB subsidiaries primarily arise from regulated sales to ESB subsidiaries. Charges from and amounts owed to ESB subsidiaries primarily arise from services purchased. Other transactions with related parties shown above relate to dividends paid to the shareholder, and in the prior year, also include payments received for assistance during storms. Amounts in relation to the back to back swaps with ESBNI Limited are detailed in note 16.

Other related parties

During the year the Group and Company contributed £27.6m (2015 – £27.0m Group, £20.2m Company) to NIEPS.

nienetworks.co.uk

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