



# Annual Report & Accounts

12 months ended 31 December 2014

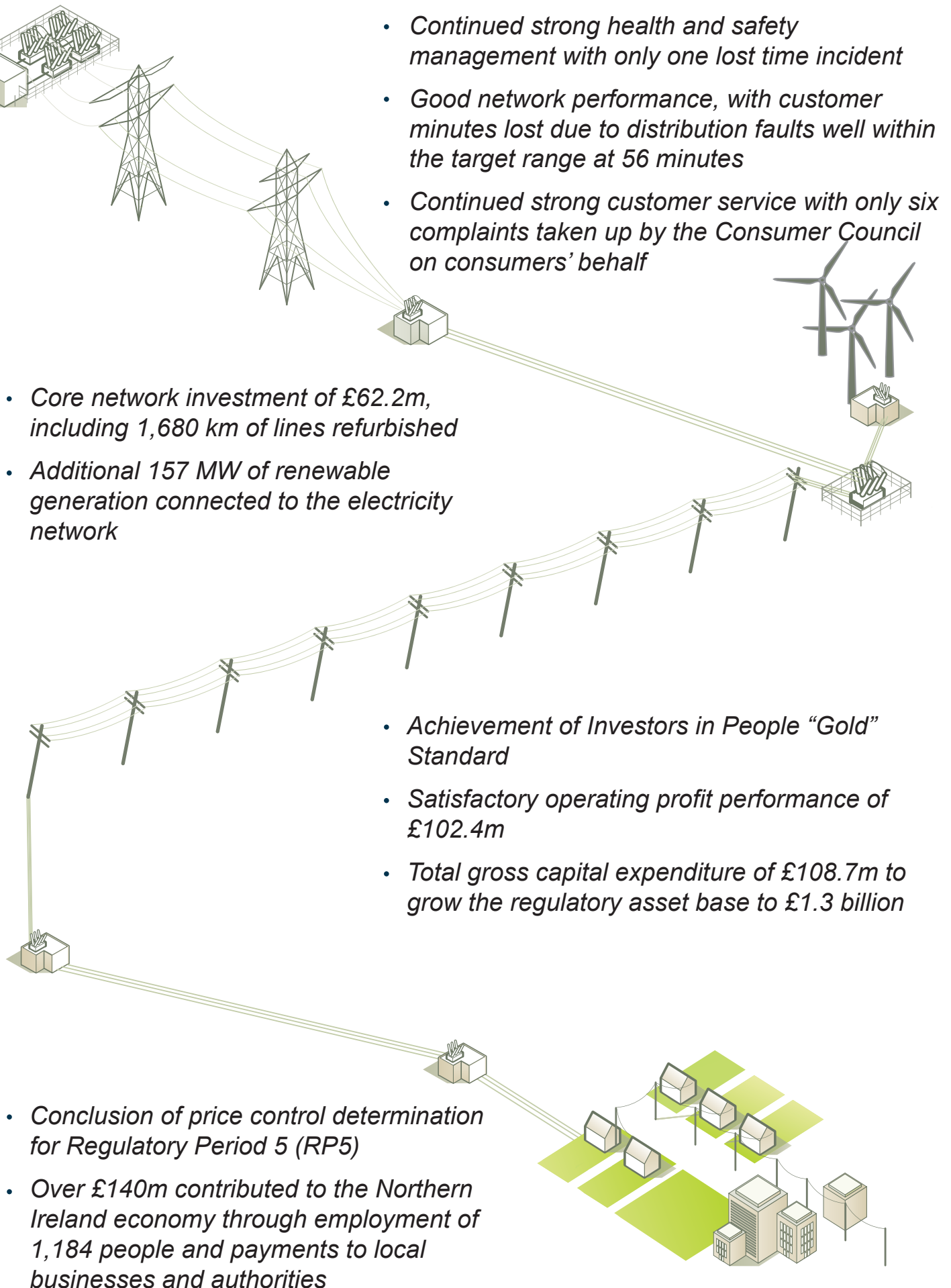


INVESTORS  
IN PEOPLE | Gold

# CONTENTS

<b><i>2014 at a Glance</i></b>	<b>3</b>
<b><i>Group Strategic Report</i></b>	<b>4</b>
<b><i>Corporate Social Responsibility</i></b>	<b>18</b>
<b><i>Board of Directors</i></b>	<b>20</b>
<b><i>Directors' Report and Statement of Directors' Responsibilities</i></b>	<b>21</b>
<b><i>Independent Auditor's Report</i></b>	<b>25</b>
<b><i>Group Income Statement</i></b>	<b>26</b>
<b><i>Statements of Comprehensive Income</i></b>	<b>26</b>
<b><i>Balance Sheets</i></b>	<b>27</b>
<b><i>Statements of Changes in Equity</i></b>	<b>28</b>
<b><i>Cash Flow Statements</i></b>	<b>30</b>
<b><i>Notes to the Accounts</i></b>	<b>31</b>

# 2014 AT A GLANCE



- Continued strong health and safety management with only one lost time incident
- Good network performance, with customer minutes lost due to distribution faults well within the target range at 56 minutes
- Continued strong customer service with only six complaints taken up by the Consumer Council on consumers' behalf

- Core network investment of £62.2m, including 1,680 km of lines refurbished
- Additional 157 MW of renewable generation connected to the electricity network

- Achievement of Investors in People “Gold” Standard
- Satisfactory operating profit performance of £102.4m
- Total gross capital expenditure of £108.7m to grow the regulatory asset base to £1.3 billion

- Conclusion of price control determination for Regulatory Period 5 (RP5)
- Over £140m contributed to the Northern Ireland economy through employment of 1,184 people and payments to local businesses and authorities



# GROUP STRATEGIC REPORT

The directors present their annual report and accounts for Northern Ireland Electricity Limited (NIE or the Company) and its subsidiary undertakings (the Group) for the year ended 31 December 2014.

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

NIE's operating subsidiary companies are NIE Networks Services Limited and NIE Finance PLC.

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

## Principal Activities

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.

Responsibility for transmission network planning was transferred to SONI Limited, the transmission system operator in Northern Ireland, with effect from 1 May 2014 in accordance with the European Commission decision in respect of the transmission arrangements in Northern Ireland under the IME3 Directive.

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

NIE is regulated by the Northern Ireland Authority for Utility Regulation (the Utility Regulator) and the Department of Enterprise Trade and Investment (DETI). NIE's operations are regulated under its Participate in Transmission Licence (Transmission Licence) and Electricity Distribution Licence (Distribution Licence).

Under its Transmission and Distribution licences NIE is required to develop, maintain, and in the case of the distribution system, operate an efficient, co-ordinated and economical system of:

- electricity transmission - the bulk transfer of electricity across its high voltage network of overhead lines, underground cables and associated equipment mainly operating at 275kV and 110kV; and
- electricity distribution - the transfer of electricity from the high voltage transmission

system and its delivery to consumers across a network of overhead lines and underground cables operating at 33kV, 11kV and lower voltages.

The transmission and distribution networks comprise a number of interconnected networks of overhead lines and underground cables which are used for the transfer of electricity to c850,000 consumers via a number of substations. During the year an estimated 7.9TWh of electricity was distributed to consumers in Northern Ireland.

There are 2,200 km of transmission lines, 45,000 km of distribution lines and 300 major substations, including 40 serving large wind farm sites. NIE's transmission system is connected to that of the Republic of Ireland (RoI) through a 275kV interconnector and to that in Scotland via the Moyle Interconnector. There are also two standby 110kV connections to RoI.

NIE manages the Transmission and Distribution networks on an integrated basis. The employees in NIE's subsidiary company, NIE Networks Services Limited, provide construction, maintenance, metering and other services to NIE and are fully integrated into NIE's organisational structure.

## Strategy

NIE's 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.

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

## RP5 Price Control

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

NIE's 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 - previously known as the Competition Commission). The formal licence modifications to implement the CMA's determination are expected to be finalised over the next few months.

The price control includes up-front allowances of £615m and £337m (December 2014 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's actual costs and the allowances. This is equivalent to the capital and operating cost allowances being calculated as the average of the up-front allowances and NIE's actual costs. The 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, the main exceptions being the proposals for improving network performance and increasing the resilience of the 11kV rural network to ice accretion events.

### Safety



*We put the safety of our employees, contractors, customers and the general public first. By continually*

*challenging and improving our safety leadership and behaviours, we will achieve zero harm.*

NIE's emphasis during 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 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 £4.7m (December 2014 price base) in respect of costs associated with early retirement schemes incurred by NIE between 1997 and 2003. The price control makes no allowance for any deficit costs which might arise in respect of pensionable service post 31 March 2012. It is expected that these costs, in conjunction with on-going service costs, will be subject to benchmarking with the GB network operators in future price controls.



## Commercially aware

*We plan and deliver all our work in the most cost effective and efficient manner for the benefit of our customers and shareholder.*

## Financial Review

### Financial KPIs

The directors previously determined that the Group's Financial KPIs were those prepared on a pro-forma basis based on regulated entitlement. However, going forward, for the purposes of the statutory accounts these KPIs will be stated on a statutory basis therefore excluding any adjustment for over or under recovery in respect of regulated entitlement.

### Operating Profit

The Group's operating profit as reported in the accounts was £102.4m for the year to 31 December 2014, a reduction of £10m on the previous year. Group revenue of £243.8m reduced by £14.2m on the previous year primarily due to the timing of recovery of regulated income. Group operating costs of £141.4m reduced by £4.2m on the previous year primarily due to lower PSO pass through costs.

### Funds from Operations (FFO) Interest Cover

The ratio of FFO to interest paid is a key internal measure of the Group's financial health. FFO interest cover was 3.3 times for the year which despite a marginal decrease on the previous year (2013 – 3.6 times) due to reduced profits, confirms the Group's continuing financial strength.

### Net Assets

The Group's net assets of £269.2m reduced by £4.8m on the previous year primarily due an increase of £57.8m in property, plant and equipment and intangible assets during the year being more than offset by a combination of an increase in the pension liability and deferred income of £36.3m and £22.9m respectively and a decrease in deferred tax liabilities of £5.7m.

### Cash Flow

Cash and cash equivalents decreased by £8.1m during the year due to net cash flows from operating activities of £125.3m offset by investing activity out flows of £119.4m and a dividend paid to the shareholder of £14.0m.

### 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 £175m and £400m (net of issue costs - £174.2m and £398.2m respectively) which are due to mature in September 2018 and June 2026 respectively.

The Group's liquidity risk is managed through the preparation of cash flow forecasts. The Group's policy is to have sufficient funds in place to meet capital expenditure funding requirements for the next 12 - 18 months. The Group has committed undrawn intercompany loan facilities in place of £105m.

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

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

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

**Interest rate risk**

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

Since December 2010, NIE has held a £550m portfolio of RPI linked interest rate swaps. In June 2014 the Company concluded a restructuring of the swaps and the mandatory break period in the swaps was extended from 2015 to 2022. The restructuring included immediate settlement of accrued accretion payments and amendments to the swap fixed interest rates. The Company 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:

<i>Year to 31 December</i>	<b>2014</b> <b>£m</b>	<b>2013</b> <b>£m</b>
Cash and cash equivalents	<b>23.7</b>	31.8
Trade and other receivables (excluding prepayments and accrued income)	<b>45.7</b>	51.5
Other financial assets – current and non-current	<b>499.4</b>	388.2
	<b>568.8</b>	471.5

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

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

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

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

**Going Concern**

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

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

# Operational Review

## Health & Safety

Ensuring the safety of employees, contractors and the general public continued to be the number one value at the heart of all NIE's 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 based on best practice guidance from the Health and Safety Executive for Northern Ireland (HSENI) and the Institute of Directors. NIE continues to engage with the Energy Networks Association Powering Improvement programme, other utilities and relevant statutory organisations to share information and improve safety performance and learning.

The target for lost time incidents continues to be set at zero: NIE's sound record continued with only one lost time incident during the year (2013 – two incidents).

During 2014 the Safety team continued to provide support to all areas of the business with particular focus on the following areas of work:

- the reporting and investigation of 'near miss' incidents is key to improving safety performance. The quality of 'near miss' incidents reported improved with approximately 62% of incidents considered as 'good catches' enabling further improvements in equipment and operational procedures to be identified and addressed;
- increased analysis of incidents with high potential to cause harm, as identified from investigation of near miss reports and non lost time incidents, with each high potential incident formally investigated, briefed to staff with follow up checks as appropriate;
- the extensive programme of formal safety training and monthly safety briefing sessions continued and in addition, operational staff participated in a 'safety stand-down' day to re-focus staff on safety;
- further employees attained a certificate in Construction, Health and Safety from the National Examination Board in Occupational

Safety and Health (NEBOSH);

- comprehensive contractor management arrangements to ensure that contractors adhere to the same safety rules and requirements as employees;
- the site safety inspection programme continued throughout the year with over 270 trained staff, from the Managing Director to the first line manager, in addition to five full time safety engineers, conducting over 3,800 audits and inspections;
- following the investigation into a fatality within ESB Networks, involving a technician carrying out routine substation maintenance, NIE-wide briefings were held on lessons to be learned and an NIE expert group established to consider how the recommendations of the investigation might apply in NIE;
- the introduction of Fire and Arc retardant work clothing for operational staff;
- particular focus on reducing road traffic incidents where staff were at fault; and
- a programme of health checks, health screening and lifestyle advice was made available to all NIE staff to coincide with 'European Health & Safety Week' and portable automated external defibrillators were made available at fourteen locations.

## Network Investment

The network investment plan, to deliver the outputs specified in the RP5 determination, involves a ramp up in the level of capital investment from 2015 to the end of the price control period in 2017. The majority of the plan is the replacement of worn transmission and distribution assets. There will be additional investment in large transmission projects which are subject to individual approval by the Utility Regulator. A number of these projects have been approved by the Utility Regulator and others have been submitted for approval.

During the year NIE invested a total of £78.5m (net of customer contributions) in transmission and distribution networks, which was consistent with the level of investment in 2013. The investment was primarily the refurbishment and replacement of worn transmission and distribution assets to improve reliability of supply and ensure the safety of the network.

During the year 1,680 km of transmission and distribution overhead lines were refurbished under an



on-going programme. Tree cutting is an essential on-going programme to maintain the network's resilience to storm conditions and during the year tree cutting was carried out along 7,000 km of overhead lines by both in-house tree cutting teams and specialist contractors.

Key projects progressed during the year included:

- construction of a new 110/33kV substation at Whitla Street in central Belfast to replace the existing 110/33kV substation at Power Station West and the existing 33/6.6kV substation at Whitla Street, to cater for increasing load. Distribution work was substantially completed during 2014 and transmission work will commence in 2015. This £5.6m project should complete in 2016;
- work progressed on the refurbishment of three 275/110kV substations (at Kells, Castlereagh and Tandragee) under the transmission asset replacement programme. The projects, with a total investment of approximately £19m, are due to complete in 2017; and
- on the distribution network, work continued on substation refurbishment and replacement, with £13.1m invested during the year, and overhead line refurbishment programmes, with £16.9m invested during the year.

The total network investment also included £20.0m (£7.8m net of developers' contributions) to facilitate connection of additional renewable generation, consistent with NIE's 'Medium Term Plan'. Projects advanced during 2014 as part of the Medium Term Plan included:

- phase two of the development of the existing 275/110kV substation at Tamnamore to facilitate the flow of power from renewable generation in the west to the demand centres in the east of Northern Ireland. The construction of this significant project, with a total investment to date of £17.0m, commenced in 2013 and is due to complete during 2015;
- upgrading of the Kells to Coleraine 110kV circuit by installing higher capacity conductors at critical sections. This significant project, with a total investment to date of £2m, commenced construction in 2013 and is due to complete in 2015; and

- progressing the development of three 110/33kV wind farm cluster substations to be located at Gort in Co. Fermanagh; Tremoge in Co. Tyrone and Rasharkin in Co. Antrim. Construction commenced in early 2015 and is due to complete in late 2016, enabling the connection of 13 large scale wind farms.

## 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 values.

Performance of the distribution network is measured in its availability – the number of minutes lost per consumer (CML). Planned CML is the average number of minutes lost per consumer for the period through pre arranged shutdowns for maintenance and construction: the number of planned CML for the year to 31 December 2014 was 50 minutes, remaining well within the target range, and consistent with the previous year.

Fault CML is the average number of minutes lost per consumer for the period through distribution fault interruptions, excluding the effect of major storms: good performance continued during 2014 with CML at 56 minutes, again well within the target range and consistent with the previous year.

The Utility Regulator sets overall and guaranteed standards for NIE's performance. The majority apply to services provided by NIE, such as the timely restoration of consumers' supplies following an interruption and prescribed times for responding to consumers' voltage complaints. All the overall standards were achieved and there were no defaults against guaranteed standards for customer service activities delivered during 2014 (2013 - one).

### Customer focus



*We provide a safe, reliable & responsive electricity service, which endeavours to meet the standards*

*our customers expect. We deal with customers professionally, courteously and we respect their individual needs.*

During 2014, NIE restored 92% of customers' electricity supplies within three hours against the regulatory standard of 87%.

Customers' expectations and their willingness to submit a complaint continues to rise and 2014 saw a slight increase in the total number of customer complaints received. The focus continues to be reducing the number of avoidable complaints. NIE's continued strong focus on service failure analysis limits the number of instances when consumers are dissatisfied to the extent that they refer a complaint to the Consumer Council for Northern Ireland for review. Only six complaints were taken up by the Consumer Council on behalf of customers (Stage 2 Complaints to the Consumer Council) during the year (2013 – three complaints). Individual complaints received by NIE are analysed and assessed, based on the individual specific circumstances, as to whether or not the complaint was avoidable and summary details are reported to the Executive Committee.

NIE was the top utility performer in the UK's Institute of Customer Service 2014 Customer Satisfaction Survey.

NIE 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 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 two 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. Mutual arrangements are in place with ESB Networks staff to provide support if required during a severe weather event. Under this arrangement around 160 NIE staff (linespersons, tree cutters and team managers), assisted ESB Networks staff to restore supplies to the 260,000 customers affected by Storm Darwin in south-west Ireland in February 2014.

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

## Connections

The number of applications for customer demand connections increased by 12% to 9,800 applications during the year reflecting a recovery in the construction sector in Northern Ireland (2013 – 8,700 applications).

During the year NIE has made significant progress in connecting further renewable generation capacity to the network. Four large-scale wind farms were connected to the network, providing an additional 98 MW of renewable generation, and representing an increase of over 60% of capacity connected in the previous year:

- Dunbeg Wind Farm in Co. Londonderry (42MW);
- Dunmore Wind Farm in Co. Londonderry (21MW);
- Thornog Wind Farm in Co. Tyrone (20MW); and
- Molly Mountain Wind Farm in Co. Fermanagh (15MW).

The number of applications for the connection of small-scale renewable generation increased by 16% compared to 2013 with 755 applications received and the number of applications for micro-generation increased by 92% from the previous year with over 6,000 applications received. During the year a total of 59MW of small-scale renewable generation and micro-generation was connected to the network, including single wind turbines, anaerobic digestors, hydro turbines and domestic solar PV micro-generation projects, representing a 90% increase on the previous year. The current incentive arrangements based on renewable obligation certificates (ROCs) are due to cease in March 2017 and be replaced with new arrangements which are expected to be less attractive to developers.

By the end of the year, there was a total of 750MW of renewable generation connected, representing around 20% of total generation in Northern Ireland. The Government's target of 40% of generation from renewable sources by 2020 will require circa 1,600 MW of connected renewables by 2020.



This high level of activity has led to congestion in the distribution network, which has resulted in increased costs for developers where there is significant 11kV reinforcement required. In October 2014 NIE published a 'heat map' on its website to provide guidance on the capability of the 11kV network to accept further small scale generation.

Parts of the 33kV network also require reinforcement. Following the consideration of possible approaches with the Utility Regulator, in August 2014 NIE advised developers who had been given connection offers with conditional terms relating to the 33kV network, that the offers were withdrawn. A review is being undertaken and various options are being considered to deal with the 33kV capacity issue, including whether 33kV investment might be passed to developers and/or whether alternative connection arrangements might be offered (for example a 'managed' connection where connections can be made but with some level of output restriction). NIE is working closely with all key stakeholders including the Utility Regulator, DETI, SONI, Ulster Farmers' Union and NI Renewables Industry Group to consider the best approach. It is anticipated that new methods of connection (if proven workable) and/or charging arrangements will be defined and available by early 2016.

## Market Operations

NIE continued to achieve full compliance with its regulatory obligations in respect of customer appointments for metering work. NIE 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 correctly and minimising the number of estimated bills issued by electricity suppliers. The access rate achieved to enable meter reading remained high at 82%.

NIE has also 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 continued to be fully compliant with these obligations with no breaches of the Code since its introduction in 2007.

## Sustainability

NIE's environmental policy commits to protecting the environment and mitigating the impact of its activities upon the environment. The environmental manage-

ment system is designed to ensure compliance with all relevant legislative and regulatory requirements and, where practical and economically viable, we seek to develop standards in excess of such requirements, introducing best practice solutions where possible. NIE's environmental management system maintained ISO 14001: accreditation during the year.

Areas of particular focus are protecting against oil pollution and land contamination and also to promote energy efficiency. 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) continuing to improve during the year to 98% (2013 – 97%).

NIE completed its "Shift & Save" Smart Grid trial during the year. The trial, involving 200 homes, investigated how smart meters and smart grid technology could change homeowners' energy usage patterns. Customer behaviour was monitored via in-home displays and the use of a multi-rate shadow tariff. During the trial customers significantly reduced the average tea-time peak usage and the total number of units used.

## People

Against the backdrop of the RP5 price control determination, management considered a range of cost reduction initiatives including working with employees on the implementation of a voluntary selective severance scheme under which 100 employees left the business during the year. In April 2014 a one-year pay freeze was implemented for engineering, administrative and management staff. Organisational structures have been streamlined, with development opportunities available for all levels of employees. The number of employees at the end of 2014 was 1,184 (2013 – 1,285).



**Our people**

*We believe in our people - in developing and nurturing effective teams and high performing leaders to deliver our goals. Together we foster an environment of collaboration, diversity and professionalism where we are motivated, supported and valued.*

### *Sickness Absence*

The pro-active management of absenteeism is to the mutual benefit of the organisation and its employees. An employee health and well-being policy covering stress management is in place, with specific policies on mental health, alcohol and drug-related problems and non-smoking. External occupational health and counselling services are available for employees. Sickness absence during the year improved to 2.88% from 2.95% the previous year, with serious long-term illnesses representing a significant proportion.

### *Training and development*

NIE seeks to attract, develop and retain highly skilled people through its apprenticeship, graduate, apprentice-to-graduate, scholarship and sponsorship programmes. NIE 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.

The focus on development continued during the year with a high percentage of employees involved in skills development, formal qualifications, role enhancement, role changes, team development initiatives, coaching or mentoring.

### *Equality and diversity*

NIE is pro-active 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. The Group is committed to providing equality of opportunity for all employees and job applicants with on-going monitoring to ensure that we provide equality of opportunity in all our employment practices.

In order to ensure diversity and inclusion in the workplace, during the year line managers across the organisation received specific training to raise awareness of employees' personal responsibilities in respecting differences in relation to the Lesbian, Gay and Bisexual (LGB) community.

NIE 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.

### *Employee Engagement*

NIE places considerable emphasis on employee participation and communications. There is a formal induction programme for all new starts including meeting with senior management. During the year employees were kept informed of NIE's objectives, plans, financial and operational performance and their effect on them as employees through the monthly newsletter, monthly team briefings and via two series of road show 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.

During the year many employees were involved in the activities of employee engagement focus groups across the business, including bringing forward proposals which have been approved by management and implemented: including the 'Options' pension scheme; flexible benefits; sickness absence processes; flexible working arrangements; buy/sell leave arrangements; NIE's Vision, Mission and Values statement; and health and wellbeing initiatives. Employee relations are positive and constructive and formal meetings are held regularly between senior managers and representatives of employees and their unions to discuss matters of common interest.

Following an assessment during September 2014 NIE was re-accredited by the UK Commission for Employment and Skills with the Investors in People (IIP) standard, which tests on-going investment in people to improve business performance. The highest "Gold" standard was achieved, reflecting the quality and commitment of employees and demonstrating effective employee engagement processes.

## ***Integrity & respect***



***We are honest, transparent and ethical in all our business dealings. We treat people fairly and with dignity and respect. We take responsibility for our actions and hold ourselves accountable for all we do.***

## Key Performance Indicators (KPIs)

The above review refers to the KPIs used to measure progress towards achieving operational objectives. These are summarised below:

<b>KPIs - year to 31 December</b>	<b>2014</b>	<b>2013</b>
<b>Safety:</b>		
Lost time incidents ( <i>number of</i> )	1	2
<b>Network Performance:</b>		
Customer Minutes Lost ( <i>CML</i> )		
Planned CML ( <i>minutes</i> )	50	50
Fault CML ( <i>minutes</i> )	56	56
<b>Customer Service:</b>		
Overall standards – defaults ( <i>number of</i> )	None	None
Guaranteed standards – defaults ( <i>number of</i> )	None	1
Stage 2 complaints to the Consumer Council ( <i>number of</i> )	6	3
<b>Connections:</b>		
Applications for customer demand connections ( <i>number of</i> )	9,800	8,700
Renewable generation connected: ( <i>MW</i> )		
Small scale (<2 MW)	59	31
Large scale (> 2MW)	98	60
<b>Sustainability:</b>		
Waste recycling rate (%)	98%	97%

## Looking Forward

NIE's key priorities for 2015 are:

- ensuring the health and safety of employees, contractors and the general public will continue to be NIE's top priority;
- ramping up of the network investment programme to replace worn/aged assets and to facilitate connection of renewable generation within regulatory allowances;
- consistently providing high standards in network performance and customer service;
- striving to operate within the expenditure allowances set in the price control, delivering costs efficiencies and performance improvements where possible;
- continued investment in employees to enhance the organisation's capability through further employee development programmes, increased employee engagement and empowerment and extended educational outreach initiatives; and
- engaging effectively with key stakeholders including the regulators, renewables industry groups, Confederation of British Industry and large energy users.

# Risk Management

## *Risk Management Framework and Policy*

The Board has overall responsibility for NIE's approach to risk. Recognising that risk is an active element of the environment within which NIE operates, the Board is committed to successfully managing exposure to risk and to minimising the impact of risk on the achievement of business objectives. NIE's risk management framework provides for the continuous identification, evaluation and management of NIE's significant risks and includes appropriate structures to support risk management and the formal assignment of risk responsibilities to facilitate managing and reporting on individual risks.

During the year the Board 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 is prudent in its overall management of the business and has a limited appetite for and tolerance of risk.

NIE's 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 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. NIE's Risk Management Committee (RMC) oversees and directs risk management in accordance with the approved policy. The RMC comprises a number of Executive Committee members and senior managers and is chaired by the Finance Director. The RMC considers risk assessments carried out by each business unit and the risk status and mitigation strategies are reviewed 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 the risk management process and has provided independent assurance to the Audit and Risk Committee on the adequacy and effectiveness of NIE's risk management arrangements.

## *Principal Risks and Uncertainties*

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

<b>Risk Category</b>	<b>Risk Description</b>	<b>Mitigating Strategies</b>
<b><i>Health and Safety Risks</i></b>		
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.	<p>A comprehensive annual Health, Safety and Risk Plan approved by the NIE Board setting out detailed targets for the management of health and safety.</p> <p>Comprehensive safety rules, policies, procedures and guidance reviewed and communicated regularly and compliance monitored on an on-going basis.</p> <p>A strong focus on the inspection of work sites and the reporting, reviewing and communication of near miss incidents.</p> <p>On-going programmes to increase public awareness of the risks and dangers.</p>

<b>Risk Category</b>	<b>Risk Description</b>	<b>Mitigating Strategies</b>
<b>Regulatory Risks</b>		
Price controls	Inadequate allowances from price control reviews.	NIE manages regulatory risks through the Regulatory Affairs team and relevant senior managers across the organisation with specialist external advice. Regulatory submissions are evidence based.
Licence compliance	Fail to comply with regulatory licence obligations.	The Compliance Manager within the Regulatory Affairs team co-ordinates and monitors compliance with all regulatory licence obligations and reporting to the Utility Regulator on financial and other regulatory matters.
<b>Financial Risks</b>		
Funding and liquidity	<p>Inability to secure adequate funding at appropriate cost for planned investments and maintaining NIE's credit metrics within rating targets.</p> <p>Exposure to financial counterparty risk.</p>	<p>NIE employs a continuous forecasting and monitoring process to ensure adequate funding is secured.</p> <p>NIE's detailed Treasury Policy and procedures are reviewed, revised and approved by the Board as appropriate.</p> <p>NIE's credit risk in respect of receivables from licensed electricity suppliers is mitigated by appropriate policies with security received in the form of cash deposits, letters of credit or parent company guarantees.</p>
Pensions	Increase in the deficit in the defined benefit section of the Northern Ireland Electricity Pension Scheme (NIEPS) ('Focus').	<p>'Focus' has been closed to new entrants since 1998. Since then new members have joined the money purchase section of the NIEPS ('Options').</p> <p>The NIEPS trustees seek the advice of professional investment managers regarding the scheme's investments.</p> <p>The current deficit repair plan was implemented following conclusion of the last actuarial review as at 31 March 2011. An actuarial review, based on the position as at 31 March 2014, is in progress.</p>
<b>Market Risks</b>		
Consumer service	Failure to meet standards for consumer service resulting in damage to reputation.	Stretching consumer service standards are approved by the NIE Board. Performance against these standards is monitored and reported on a monthly basis.
Connection of renewable generation	Failure to meet standards for the connection of renewable generation due to the high level of applications, with resulting damage to reputation.	<p>Procedures are in place to manage connection applications in accordance with NIE's regulatory obligations.</p> <p>NIE continues to liaise with the Utility Regulator, relevant government departments and industry representatives to facilitate a co-ordinated and structured approach to addressing, and communicating on, renewable connections.</p>

<i>Risk Category</i>	<i>Risk Description</i>	<i>Mitigating Strategies</i>
<b>Operational Risks</b>		
Network reliability	Widespread and prolonged failure of the transmission or distribution network.	<p>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's asset management practices are certified to the British Standards Institute's PAS 55, the internationally recognised standard for asset management.</p> <p>The network is strengthened through appropriate investment, a reliability-centred approach to maintenance and a systematic overhead line refurbishment and tree cutting programme. NIE's strategy is to continue to maintain and develop a safe and secure network to meet market demands.</p>
Response to emergency situations	Failing to respond adequately following damage to the electricity network from adverse weather conditions.	<p>System risk assessments are completed regularly and weather forecasts actively monitored daily.</p> <p>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.</p>
Business Continuity	NIE could sustain a greater than necessary financial impact through inability to carry on its operations, either for a short or prolonged period.	<p>NIE maintains business continuity plans, incorporating an IT disaster recovery and relocation plan, which are reviewed and tested annually.</p> <p>Comprehensive business continuity and disaster recovery plans are maintained for important outsourced ICT, business process and telecommunications services.</p>
IT Security and Data Protection	Loss of data through malicious attack on IT systems or employee negligence impacting on operational performance or reputation.	<p>NIE's IT Security Forum ensures the maintenance of adequate IT security policies. Robust ICT standards, policies and procedures for system access are in place and communicated across the organisation.</p> <p>NIE's Data Protection Forum implements and monitors compliance with data protection policy and procedures.</p>



<i>Risk Category</i>	<i>Risk Description</i>	<i>Mitigating Strategies</i>
<b><i>People Risks</i></b>		
Knowledge, skills and succession management	<p>Inadequate resources with the necessary knowledge and skills.</p> <p>Failure to develop and retain staff.</p>	<p>NIE's strategy is to attract, recruit and develop highly skilled people through graduate, apprenticeship, trainee and sponsorship programmes to ensure that appropriate resources are in place to meet NIE's regulatory obligations.</p> <p>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.</p>

*By order of the Board*

*Nicholas Tarrant  
Managing Director*

*Northern Ireland Electricity Limited,  
Registered Office,  
120 Malone Road,  
Belfast BT9 5HT*

*Registered Number: NI 26041*

*Date: 11 March 2015*



# CORPORATE SOCIAL RESPONSIBILITY

NIE provides a vital service to every home, farm and business in Northern Ireland as part of its day to day work in delivering electricity supplies. Through its mainstream business activities and various specific initiatives NIE seeks to make a positive impact on the communities in which it operates. Details of NIE's health and safety management, employment policies and initiatives and sustainability performance during 2014 can be found in the Operational Review on pages 8-13. Initiatives undertaken during the year to support our principal CSR themes and priorities are described below.

An estimated 200 days of company time is dedicated each year to initiatives to promote safety around electricity and provide skills, careers advice and guidance.

## Public Safety

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

During 2014, over 20,000 farmers and contractors received safety advice from NIE at farm safety events and through the issue of 'Farm Risk Assessment' and other safety material through the Ulster Farmers Union.

NIE's 'Kidzsafe' programme continued with over 17,000 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 continued to work with the 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, NIE staff and the wider public. A number of local scrap metal dealers have adopted the voluntary Code of Conduct introduced in 2013 and further progress was made on the introduction of legislation to control scrap metal trading.

NIE's safety advice is supplemented by a proactive media campaign, social media campaign and information available on its website at [nie.co.uk/Safety](http://nie.co.uk/Safety).

## Customer Care

NIE aims to deliver electricity safely and reliably to customers and to respond quickly and efficiently should a power cut unexpectedly occur. Proactive campaigns to communicate to key customer and government bodies and elected representatives on how NIE repairs network faults are run annually through a series of open days.

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, the Red Cross and other organisations

NIE 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's critical care information service provides assistance to customers who rely on electricity for their healthcare needs with a specific team dedicated to communicating with these 4,900 customers during planned or unplanned power cuts.

## Work Experience and Educational Outreach

Working on electricity networks requires highly specialised skills. With fewer students choosing science and technology subjects, coupled with the need to invest heavily in network renewal and investment projects, the electricity industry faces a significant skills shortage in the future. NIE therefore continues to engage proactively with students to consider engineering as a career, through a wide range of educational outreach initiatives including:

- 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;
- providing four further NIE Electrical Engineering scholarships at Queen's University Belfast and sponsoring a further two Electrical and Electronic Engineering students through their studies as part of the IET Power Academy Council. In total NIE has 21 scholarship students at Queen's University;
- work experience for GCSE and A-Level students and four week research and development experience for two A-Level students;
- providing a two day 'Insight into Engineering' placement for 10 female students;
- sponsoring the First Lego League, a global robotics programme, and the Young Innovators award for Innovation with Electricity;
- mentoring services to school children participating in the Institute of Engineering and Technology (IET) 'SMART Energy' project and 'Team R&D'; and
- continued financial support for Queen's University, Belfast's DeLorean car project for students to convert to electric-powered and for use by both NIE and Queen's University in educational outreach work.

## Community Initiatives

NIE is a member of Business in the Community (BiTC). Throughout 2014 around 25 employees served on the boards of local voluntary, community and social enterprise organisations through BiTC's 'Business on Board' programme and two employees provided specialist services to charities through BiTC's Building on Talent programme.

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

## Charitable Giving and Sponsorship

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

In promoting biodiversity NIE donated £9,000 to the Conservation Volunteers and NIE employees helped plant over two acres of woodland with a further three acres planned for early 2015.

NIE sponsored the World Congress on Mental Health and Deafness held in Belfast in September 2014.

NIE is an active member of the CBI in Northern Ireland and during the year sponsored research for the CBI's report on Evaluation of Education and Employer Partnerships and its annual lunch with the theme Gender Equality in the Workplace.





## 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 Honorary Treasurer at Queen's University Belfast, a member of Belfast Harbour Commissioners and a non-executive director of AIB Group (UK) plc, Anderson Spratt (Holdings) Ltd and Baird Group Ltd. He was formerly Chairman of Invest Northern Ireland and Managing Partner of PricewaterhouseCoopers in NI.

**ROTHA JOHNSTON CBE** was appointed as an independent non-executive director in March 2011. She is Pro-Chancellor of Queen's University Belfast and Chairperson of Northern Ireland Screen. She is a member of Belfast Harbour Commissioners and an independent board member at the

Department of Justice for Northern Ireland. Ms Johnston chairs the Audit Committee.

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

**NICHOLAS TARRANT** was appointed as NIE Managing Director (Designate) on 1 October 2014 and joined the Board on 1 December 2014 on taking up the role of Managing Director. He joined ESB in 1993 where he has held a number of senior management positions

including Generation Manager with responsibility for ESB's 4,800 MW 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** was appointed Deputy Managing Director and Director of Regulation in December 2010 and joined 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.

*Joe O'Mahony retired as Managing Director on 30 November 2014.*

# DIRECTORS' REPORT

The directors of Northern Ireland Electricity Limited (NIE or the Company) present their report.

## Results and Dividends

The results for the year ended 31 December 2014 show a profit after tax of £48.2m (2013 - £65.2m). During the year the Company paid a dividend of £14.0m (2013 - £nil). The business and financial review, together with future business developments, is 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's regulatory licences require it to establish, and at all times maintain, full managerial and operational independence within the ESB Group.

NIE's Board comprises two executive directors and three independent non-executive directors. Stephen Kingon CBE chairs the Board. Rotha Johnston CBE and Ronnie Mercer CBE are the Board's other independent non-executive directors. Joe O'Mahony, Managing Director NIE served on the Board until the end of November 2014 when he was succeeded by Nicholas Tarrant. Peter Ewing, Deputy Managing Director and Director of Regulation is the other executive director. Further details on Board members are provided on page 20. The

Board meets at least quarterly and also meets on other occasions as necessary: it met seven times during the year with all members attending each meeting.

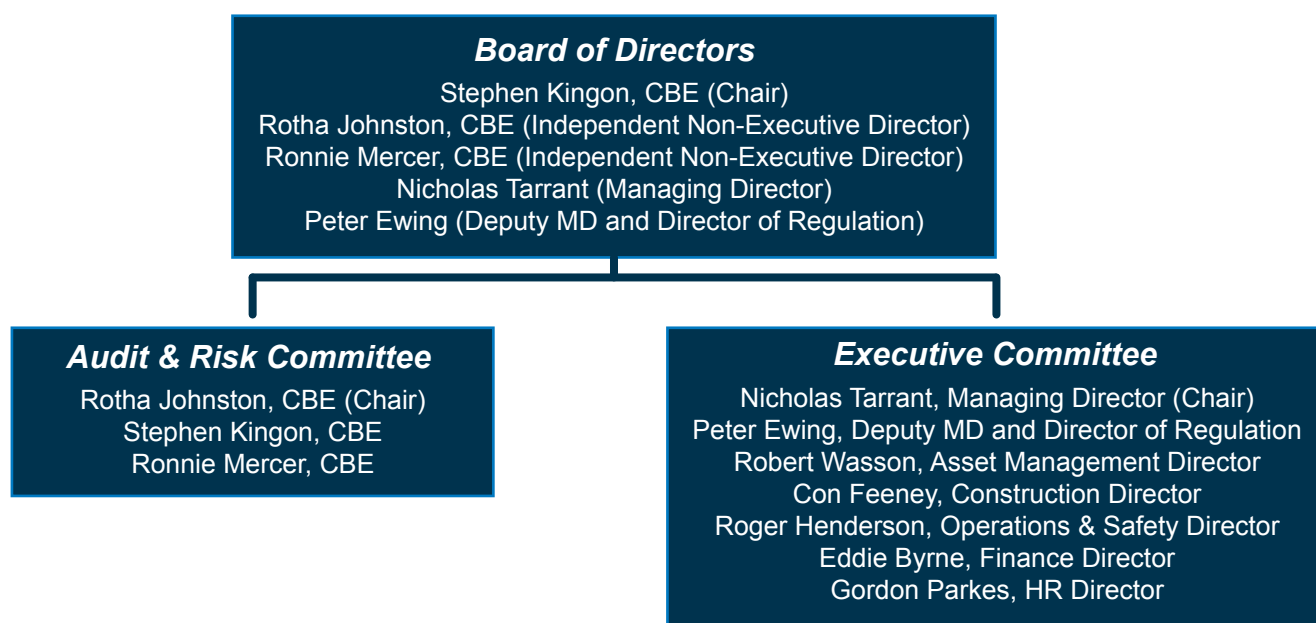
The Board has a formal schedule of matters specifically reserved to it including:

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

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

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

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



## 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, which were updated in November 2014, can be found on NIE's website at [www.nie.co.uk/About-NIE/Board-Committees](http://www.nie.co.uk/About-NIE/Board-Committees).

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

During the year the Committee considered:

- NIE's Risk Management Policy and framework, key risks facing NIE, key risks facing each business unit and mitigating actions being taken and the Risk Management Committee's work programme;
- risk appetite assessment for all key business activities;
- the internal audit plan for 2014, with regular updates on audit reports issued, issues arising and progress updates on the implementation of actions arising from previous audits;
- an enhanced approach to developing a three year internal audit plan for 2015-17;
- the effectiveness of internal controls and the risk management system;
- terms of engagement of internal auditors;
- NIE's interim, annual and regulatory accounts and NIE Finance PLC's annual accounts, considering the appropriateness of accounting policies, whether the accounts give a true and fair view and the appropriateness of the going concern assumption and reviewing the significant issues and judgements;
- the external auditor's plan for the scope of the audit of the statutory accounts;
- reports from the external auditor on its audit of the annual and regulatory accounts, recommendations made by the auditor and management's response and its review of NIE's interim report and accounts;

- a report on the effectiveness and independence of the external auditors;
- various regulatory submissions;
- its own terms of reference to ensure they were up to date and in line with best practice; and
- its own effectiveness as part of the Board and Committee's performance evaluation.

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

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

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

## Internal Control Framework

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

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

- a code of business ethics that requires all Board members and employees to maintain the highest ethical standards in conducting business;
- a clearly defined organisational structure with defined authority limits and reporting mechanisms;
- a risk management framework including the maintenance of risk registers and on-going monitoring of key risks and mitigating actions;

- a comprehensive set of policies and procedures relating to financial and operational controls including health and safety, regulation, HR, asset management, risk management and capital expenditure;
- appropriately qualified and experienced personnel;
- comprehensive budgeting and business planning processes with an annual budget approved by the Board;
- an integrated accounting system with a comprehensive system of management and financial reporting. Cumulative monthly actual results are reported against budget and considered by the Executive Committee and the Board members on a monthly basis. Any significant changes and adverse variances are questioned and remedial action taken where appropriate;
- key managers formally evaluating, and the internal auditors testing, the satisfactory and effective operation of financial and operational controls; and
- external auditors providing advice on specific accounting and tax issues.

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

### **Directors' Insurance**

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

### **Disclosure of Information to the Auditors**

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

### **Re-appointment of Auditors**

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

### **Group Strategic Report**

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

- an indication of future developments in the business (see pages 4-13);
- the Group's objectives and policies for financial risk management (including liquidity risk and credit risk) (see pages 6-7);
- a statement on the policy for disabled employees (see page 12);
- arrangements for employees to participate in the affairs of the Company (see page 12); and
- an indication of activities in the Group in the field of research and development (see page 11).

### **Statement of Directors' Responsibilities**

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

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

In preparing those accounts the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group and the Company;
- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements of IFRS as adopted by the EU is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and the Company's financial position and financial performance, and disclose and explain any departure from IFRS as adopted by the EU where, in their view, compliance would be so misleading as to conflict with a fair presentation; and
- state that (except for any such departure) the accounts have been prepared in accordance with IFRS as adopted by the EU.

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

*By order of the Board*

*Nicholas Tarrant  
Managing Director*

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

*Date: 11 March 2015*

As required under the UK Listing Authority's Disclosure and Transparency Rules, each of the directors as detailed on page 20 confirms that to the best of his/her knowledge:

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



## **INDEPENDENT AUDITOR'S REPORT**

### **To the members of Northern Ireland Electricity Limited**

We have audited the financial statements of Northern Ireland Electricity Limited for the year ended 31 December 2014, which comprise the Group Income Statement, the Group and Company Statements of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group and Company Cash Flow Statements and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements 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 financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements 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**

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and as regards the Group financial statements, Article 4 of the IAS Regulation.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Group Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

David Galbraith (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
Belfast  
Date: 18 March 2015

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

## GROUP INCOME STATEMENT

for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Revenue	3	243.8	258.0
Operating costs	4	<u>(141.4)</u>	<u>(145.6)</u>
<b>OPERATING PROFIT</b>		<b>102.4</b>	<b>112.4</b>
Finance revenue	6	84.3	0.3
Finance costs	6	(121.7)	(37.4)
Net pension scheme interest	6	(3.5)	(5.3)
Net finance costs	6	<u>(40.9)</u>	<u>(42.4)</u>
<b>PROFIT BEFORE TAX</b>		<b>61.5</b>	<b>70.0</b>
Tax charge	7	<u>(13.3)</u>	<u>(4.8)</u>
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY</b>		<b><u>48.2</u></b>	<b><u>65.2</u></b>

## STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

	Note	Group		Company	
		2014 £m	2013 £m	2014 £m	2013 £m
<b>Profit for the financial year</b>		<u>48.2</u>	<u>65.2</u>	<u>47.1</u>	<u>63.7</u>
<b>Other comprehensive expense:</b> Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurement (losses) / gains on pension scheme assets and liabilities	21	(49.0)	1.2	(42.5)	(1.3)
Deferred tax credit / (charge) relating to components of other comprehensive income	7	<u>9.8</u>	<u>(2.8)</u>	<u>8.5</u>	<u>(2.0)</u>
<b>Net other comprehensive expense for the year</b>		<u>(39.2)</u>	<u>(1.6)</u>	<u>(34.0)</u>	<u>(3.3)</u>
<b>Total comprehensive income for the year attributable to the equity holders of the parent company</b>		<u><u>9.0</u></u>	<u><u>63.6</u></u>	<u><u>13.1</u></u>	<u><u>60.4</u></u>

## BALANCE SHEETS

as at 31 December 2014

	Note	Group		Company	
		2014 £m	2013 £m	2014 £m	2013 £m
<b>Non-current assets</b>					
Property, plant and equipment	9	1,350.1	1,287.7	1,347.8	1,285.2
Intangible assets	10	34.1	38.7	34.1	38.7
Trade and other receivables	12	-	-	21.2	22.0
Derivative financial assets	16	487.6	376.9	487.6	376.9
Investments	17	-	-	7.9	7.9
		<u>1,871.8</u>	<u>1,703.3</u>	<u>1,898.6</u>	<u>1,730.7</u>
<b>Current assets</b>					
Inventories	11	7.7	6.3	7.7	6.3
Trade and other receivables	12	49.4	54.9	47.4	52.2
Derivative financial assets	16	11.8	11.3	11.8	11.3
Cash and cash equivalents	13	23.7	31.8	23.5	31.8
		<u>92.6</u>	<u>104.3</u>	<u>90.4</u>	<u>101.6</u>
<b>TOTAL ASSETS</b>		<u>1,964.4</u>	<u>1,807.6</u>	<u>1,989.0</u>	<u>1,832.3</u>
<b>Current liabilities</b>					
Trade and other payables	14	83.6	84.5	84.0	85.5
Current tax payable		6.1	7.9	6.1	8.1
Deferred income	15	10.6	9.8	10.6	9.8
Financial liabilities:					
Derivative financial liabilities	16	11.8	11.3	11.8	11.3
Other financial liabilities	18	18.2	18.2	18.2	18.2
Provisions	20	0.5	1.8	0.5	1.3
		<u>130.8</u>	<u>133.5</u>	<u>131.2</u>	<u>134.2</u>
<b>Non-current liabilities</b>					
Deferred tax liabilities	7	69.7	75.4	64.5	69.3
Deferred income	15	298.0	275.9	298.0	275.9
Financial liabilities:					
Derivative financial liabilities	16	487.6	376.9	487.6	376.9
Other financial liabilities	18	572.4	572.1	572.4	572.1
Provisions	20	8.8	8.2	8.5	8.1
Pension liability	21	127.9	91.6	156.7	125.0
		<u>1,564.4</u>	<u>1,400.1</u>	<u>1,587.7</u>	<u>1,427.3</u>
<b>TOTAL LIABILITIES</b>		<u>1,695.2</u>	<u>1,533.6</u>	<u>1,718.9</u>	<u>1,561.5</u>
<b>NET ASSETS</b>		<u>269.2</u>	<u>274.0</u>	<u>270.1</u>	<u>270.8</u>
<b>Equity</b>					
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	202.3	207.1	203.2	203.9
		<u>269.2</u>	<u>274.0</u>	<u>270.1</u>	<u>270.8</u>
<b>TOTAL EQUITY</b>		<u>269.2</u>	<u>274.0</u>	<u>270.1</u>	<u>270.8</u>

The accounts were approved by the Board of directors and authorised for issue on 11 March 2015. They were signed on its behalf by:

Nicholas Tarrant  
Director

Date: 11 March 2015

## STATEMENTS OF CHANGES IN EQUITY

### for the year ended 31 December 2014

#### Group

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
<b>At 1 January 2013</b>		<b>36.4</b>	<b>24.4</b>	<b>6.1</b>	<b>135.9</b>	<b>202.8</b>
Profit for the year		-	-	-	65.2	65.2
Net other comprehensive expense for the year		-	-	-	(1.6)	(1.6)
Total comprehensive income for the year		-	-	-	63.6	63.6
Gain on reapportionment of exiting pension scheme participant's assets	21	-	-	-	7.4	7.4
Deferred tax relating to gain on reapportionment of pension assets	7	-	-	-	(1.5)	(1.5)
Current tax relating to RPI index-linked swaps	7	-	-	-	16.2	16.2
Deferred tax relating to items charged in changes in equity	7	-	-	-	(14.5)	(14.5)
<b>At 1 January 2014</b>		<b>36.4</b>	<b>24.4</b>	<b>6.1</b>	<b>207.1</b>	<b>274.0</b>
Profit for the year		-	-	-	48.2	48.2
Net other comprehensive expense for the year		-	-	-	(39.2)	(39.2)
Total comprehensive income for the year		-	-	-	9.0	9.0
Gain on reapportionment of exiting pension scheme participant's assets	21	-	-	-	0.3	0.3
Deferred tax relating to gain on reapportionment of pension assets	7	-	-	-	(0.1)	(0.1)
Dividends to the shareholder	22	-	-	-	(14.0)	(14.0)
<b>At 31 December 2014</b>		<b>36.4</b>	<b>24.4</b>	<b>6.1</b>	<b>202.3</b>	<b>269.2</b>

## STATEMENTS OF CHANGES IN EQUITY

### for the year ended 31 December 2014

#### Company

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
<b>At 1 January 2013</b>		<b>36.4</b>	<b>24.4</b>	<b>6.1</b>	<b>135.9</b>	<b>202.8</b>
Profit for the year		-	-	-	63.7	63.7
Net other comprehensive expense for the year		-	-	-	(3.3)	(3.3)
Total comprehensive income for the year		-	-	-	60.4	60.4
Gain on reapportionment of exiting pension scheme participant's assets	21	-	-	-	7.4	7.4
Deferred tax relating to gain on reapportionment of pension assets	7	-	-	-	(1.5)	(1.5)
Current tax relating to RPI index-linked swaps	7	-	-	-	16.2	16.2
Deferred tax relating to RPI index-linked swaps	7	-	-	-	(14.5)	(14.5)
<b>At 1 January 2014</b>		<b>36.4</b>	<b>24.4</b>	<b>6.1</b>	<b>203.9</b>	<b>270.8</b>
Profit for the year		-	-	-	47.1	47.1
Net other comprehensive expense for the year		-	-	-	(34.0)	(34.0)
Total comprehensive income for the year		-	-	-	13.1	13.1
Gain on reapportionment of exiting pension scheme participant's assets	21	-	-	-	0.3	0.3
Deferred tax relating to gain on reapportionment of pension assets	7	-	-	-	(0.1)	(0.1)
Dividends to the shareholder	22	-	-	-	(14.0)	(14.0)
<b>At 31 December 2014</b>		<b>36.4</b>	<b>24.4</b>	<b>6.1</b>	<b>203.2</b>	<b>270.1</b>

## CASH FLOW STATEMENTS

### for the year ended 31 December 2014

	Note	Group		Company	
		2014	2013	2014	2013
		£m	£m	£m	£m
<b>Cash flows from operating activities</b>					
Profit for the year		48.2	65.2	47.1	63.7
Adjustments for:					
Tax charge		13.3	4.8	13.0	5.8
Net finance costs	6	40.9	42.4	42.1	42.7
Depreciation of property, plant and equipment	9	53.0	50.0	52.3	49.8
Release of customers' contributions and grants	15	(10.6)	(9.8)	(10.6)	(9.8)
Amortisation of intangible assets	10	5.1	4.4	5.1	4.4
Contributions in respect of property, plant and equipment	15	33.5	29.1	33.5	29.1
Defined benefit pension charge less contributions paid	21	(15.9)	(15.0)	(15.6)	(14.9)
Net movement in provisions	20	(0.7)	(0.1)	(0.4)	0.2
Operating cash flows before movement in working capital		166.8	171.0	166.5	171.0
Increase in inventories		(1.4)	-	(1.4)	-
Decrease / (increase) in trade and other receivables		6.6	(0.7)	4.8	(0.6)
Increase in trade and other payables		1.6	8.7	2.1	8.5
Decrease in working capital		6.8	8.0	5.5	7.9
<b>Cash generated from operations</b>		173.6	179.0	172.0	178.9
Interest received		84.3	0.3	84.6	0.3
Interest paid		(121.5)	(37.5)	(121.5)	(37.5)
Current taxes paid		(11.1)	(9.7)	(11.3)	(10.0)
<b>Net cash flows from operating activities</b>		125.3	132.1	123.8	131.7
<b>Cash flows used in investing activities</b>					
Purchase of property, plant and equipment		(118.9)	(105.7)	(118.4)	(105.5)
Purchase of intangible assets		(0.5)	(3.1)	(0.5)	(3.1)
Loan made to subsidiary company		-	-	-	(22.0)
Purchase of investment in subsidiary, net of cash acquired	17	-	(7.4)	-	(7.8)
Repayment of loans made to group undertaking		-	-	0.8	-
<b>Net cash flows used in investing activities</b>		(119.4)	(116.2)	(118.1)	(138.4)
<b>Cash flows used in financing activities</b>					
Dividends paid to shareholder	22	(14.0)	-	(14.0)	-
Repayment of borrowings		-	(22.7)	-	-
<b>Net cash flows used in financing activities</b>		(14.0)	(22.7)	(14.0)	-
Net decrease in cash and cash equivalents		(8.1)	(6.8)	(8.3)	(6.7)
Cash and cash equivalents at beginning of year		31.8	38.6	31.8	38.5
<b>Cash and cash equivalents at end of year</b>	13	23.7	31.8	23.5	31.8

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

## NOTES TO THE ACCOUNTS

### 1. General Information

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

The accounts have been prepared in accordance with IFRS as adopted by the EU and applied in accordance with the provisions of the Companies Act 2006. The accounts are presented in Sterling (£) with all values rounded to the nearest £100,000 except where otherwise indicated.

### 2. Accounting Policies

The principal accounting policies applied in the preparation of these financial statements 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, amendments to standards and interpretations, applicable from 1 January 2014, have been adopted by the Group. These standards, amendments to standards and interpretations have not impacted on the accounting policies, financial position or performance of the Group, or on presentation or disclosure in the financial report:

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 27 (revised 2011)	Separate Financial Statements
IAS 28 (revised 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of derivatives and Continuation of Hedge Accounting
Amendments to IFRS 10, 12 and IAS 27 -	Investment Entities
IFRIC 21	Levies

At the date of the authorisation of these financial statements, the following new and amended standards and interpretations in issue are not yet effective and have not been adopted by the Group:

Amendment to IAS19	Employee Benefits on Defined Benefit Plans (effective 1 July 2014)
Annual Improvements to IFRSs – 2010 to 2012 cycle	(effective 1 July 2014)
Annual Improvements to IFRSs – 2011 to 2013 cycle	(effective 1 July 2014)

The directors do not expect the adoption of these standards and interpretations to have a material impact on the consolidated or company financial statements in the period of initial application.

## 2. Accounting Policies (continued)

### ***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.

### ***Purchases of controlling interests in subsidiaries from entities under common control***

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

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

### ***Company's investments in subsidiaries***

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

### ***Foreign currency translation***

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

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

### ***Property, plant and equipment***

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

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

Infrastructure assets - up to 40 years

Non-operational buildings - freehold and long leasehold - up to 50 years

Fixtures and equipment - up to 25 years

Vehicles and mobile plant – up to 5 years



## 2. Accounting Policies (continued)

### **Property, plant and equipment** (continued)

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

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

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

### **Computer software**

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

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

Gains or losses arising from 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**

#### *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 goods and services provided in the normal course of business, exclusive of value added tax and other sales related taxes.

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

#### *Interest receivable*

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

#### *Use of System and PSO revenue*

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

#### *Transmission service revenue*

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

#### *Customer contributions*

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

### **Government grants**

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

### **Tax**

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

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

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

## 2. Accounting Policies (continued)

### **Tax** (continued)

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

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

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

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

### **Provisions**

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

### **Pensions and other post-retirement benefits**

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

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

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

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

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

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

## 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 and Operating Profit

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

	2014 £m	2013 £m
<b>Revenue:</b>		
Sales revenue	233.7	248.7
Release of customer contributions from deferred income	10.1	9.3
	<u>243.8</u>	<u>258.0</u>
Interest receivable	84.3	0.3
	<u>328.1</u>	<u>258.3</u>

During the year, two customers accounted for sales revenue totalling £136.5m (2013 – two customers accounted for £152.1m).

#### **Geographical information**

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

	2014			2013		
	UK £m	RoI £m	Total £m	UK £m	RoI £m	Total £m
	<u>226.3</u>	<u>17.5</u>	<u>243.8</u>	<u>238.9</u>	<u>19.1</u>	<u>258.0</u>

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

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

### 4. Operating Costs

Operating costs are analysed as follows:

	2014 £m	2013 £m
Employee costs (note 5)	18.2	14.6
Depreciation and amortisation	58.1	54.4
Other operating charges	65.1	76.6
	<u>141.4</u>	<u>145.6</u>

Operating costs include:

Depreciation charge on property, plant and equipment	53.0	50.0
Amortisation of intangible assets	5.1	4.4
Minimum payments due under operating leases	0.4	0.4
Cost of inventories recognised as an expense	1.5	1.4

#### 4. Operating Costs (continued)

Operating costs include:

	2014 £'000	2013 £'000
<b>Auditors' remuneration</b>		
Fees payable to the Group and Company auditors for the audit of the accounts	23	26
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	46
Tax compliance services	3	3
Tax advisory services	-	1

#### 5. Employees

##### Employee costs

	2014 £m	2013 £m
Salaries	14.2	14.5
Social security costs	1.3	1.4
Pension costs		
- defined contribution plans	0.9	0.7
- defined benefit plans	7.9	4.0
	<u>24.3</u>	20.6
Less: amounts capitalised to property, plant and equipment and intangible assets	<u>(6.1)</u>	(6.0)
Charged to the income statement	<u>18.2</u>	14.6

	Average during the year		Actual headcount as at	
	2014 Number	2013 Number	2014 Number	2013 Number
Management, administration and support	294	205	277	307
Electrical services	<u>957</u>	<u>342</u>	<u>907</u>	<u>978</u>
Employee numbers	<u>1,251</u>	<u>547</u>	<u>1,184</u>	<u>1,285</u>

The employee numbers stated above include NIE Networks Services Limited's employees since 1 October 2013.

##### Directors' emoluments

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

	2014 £m	2013 £m
Emoluments in respect of qualifying services	0.5	0.5

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.

## 5. Employees (continued)

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

<b>As at 31 December</b>	<b>2014</b>	2013
	<b>£'000</b>	£'000
Emoluments	<b>264</b>	273
Total accrued pension at 31 December (per annum)	-	-

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

	<b>2014</b>	2013
	<b>Number</b>	Number
Defined benefit pension scheme	-	1
Defined contribution scheme	<b>1</b>	1

Aggregate contributions by the Company to defined contribution pension schemes in respect of the directors during the year was £55,000 (2013 - £55,000).

## 6. Net Finance Costs

	<b>2014</b>	2013
	<b>£m</b>	£m
<b>Interest receivable:</b>		
Bank interest receivable	<b>84.3</b>	0.3
<b>Interest payable:</b>		
£175m bond	<b>(12.0)</b>	(12.0)
£400m bond	<b>(25.5)</b>	(25.5)
Interest rate swaps	<b>(84.0)</b>	-
	<b>(121.5)</b>	(37.5)
Less: capitalised interest	<b>0.1</b>	0.3
Total interest charged to the income statement	<b>(121.4)</b>	(37.2)
<b>Other finance costs:</b>		
Amortisation of financing charges	<b>(0.3)</b>	(0.2)
<b>Total finance costs</b>	<b>(121.7)</b>	(37.4)
<b>Net pension interest cost</b>	<b>(3.5)</b>	(5.3)
<b>Net finance costs</b>	<b>(40.9)</b>	(42.4)

Interest recognised in the balance sheet during the year was capitalised using a weighted average interest rate of 6.63% (2013 - 6.63%).

## 7. Tax Charge

### (i) Analysis of charge during the year

Group Income Statement	2014 £m	2013 £m
<b>Current tax charge</b>		
UK corporation tax at 21.5% (2013 – 23.25%)	9.3	11.9
Corporation tax overprovided in previous years	-	(0.5)
Total current income tax	<u>9.3</u>	<u>11.4</u>
<b>Deferred tax charge / (credit)</b>		
Origination and reversal of temporary differences in current year	4.1	4.3
Origination and reversal of temporary differences relating to prior years	(0.1)	2.2
Effect of decreased tax rate on opening liability	-	(13.1)
Total deferred tax charge / (credit)	<u>4.0</u>	<u>(6.6)</u>
Total tax charge	<u>13.3</u>	<u>4.8</u>
<b>Tax relating to items (credited) / charged in other comprehensive income</b>		
<b>Deferred tax</b>		
Deferred tax (credit) / charge relating to components of other comprehensive income	(9.8)	0.2
Effect of decreased tax rate on opening asset	-	2.6
	<u>(9.8)</u>	<u>2.8</u>
<b>Tax relating to items charged / (credited) to changes in equity</b>		
<b>Deferred tax</b>		
Charge relating to gain on reappportionment of pension assets (see note 21)	0.1	1.5
Charge relating to RPI index-linked swaps	-	14.5
<b>Current tax</b>		
Credit relating to RPI index-linked swaps	-	(16.2)
	<u>0.1</u>	<u>(0.2)</u>

The deferred tax charge and current tax credit relating to RPI index-linked swaps taken to changes in equity in 2013 resulted from the immediate crystallisation of losses on swaps recognised in March 2011 treated as deductible for corporation tax purposes in prior years.

### (ii) Reconciliation of total tax charge

The tax charge in the Group Income Statement for the year is higher (2013 – lower) than the standard rate of corporation tax in the UK of 21.5% (2013 – 23.25%). The differences are reconciled below:

	2014 £m	2013 £m
Accounting profit before tax charge	61.5	70.0
Accounting profit multiplied by the UK standard rate of corporation tax of 21.5% (2013 – 23.25%)	13.2	16.3
<b>Tax effect of:</b>		
Impact of deferred tax at 20%	(0.3)	(13.6)
Other permanent differences	0.5	0.4
Tax (over) / underprovided in previous years	(0.1)	1.7
Tax charge for the year	<u>13.3</u>	<u>4.8</u>



## 7. Tax Charge (continued)

### (iii) Deferred tax

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

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Deferred tax assets</b>				
Pension liability	25.5	18.3	31.3	25.0
Other temporary differences	1.2	1.3	0.8	0.9
	<u>26.7</u>	<u>19.6</u>	<u>32.1</u>	<u>25.9</u>
<b>Deferred tax liabilities</b>				
Accelerated capital allowances	(95.5)	(94.1)	(95.7)	(94.3)
Held-over gains on property disposals	(0.9)	(0.9)	(0.9)	(0.9)
	<u>(96.4)</u>	<u>(95.0)</u>	<u>(96.6)</u>	<u>(95.2)</u>
Net deferred tax liability	<u>(69.7)</u>	<u>(75.4)</u>	<u>(64.5)</u>	<u>(69.3)</u>

Deferred tax has been calculated at 20% as at 31 December 2014 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:

	2014 £m	2013 £m
Accelerated capital allowances	1.4	(12.2)
Interest rate swaps	-	2.2
Temporary differences in respect of pensions	2.5	2.8
Other temporary differences	<u>0.1</u>	<u>0.6</u>
Deferred tax charge / (credit)	<u>4.0</u>	<u>(6.6)</u>

## 8. Profit for the Financial Year

The profit of the Company is £47.1m (2013 - £63.7m). 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
<b>Cost:</b>					
At 1 January 2013	1,898.2	5.1	53.8	-	1,957.1
Additions	103.6	-	4.4	0.7	108.7
Acquisition of subsidiary under common control (see note 17)	-	-	5.5	7.1	12.6
At 31 December 2013	2,001.8	5.1	63.7	7.8	2,078.4
Additions	108.7	-	5.9	0.8	115.4
<b>At 31 December 2014</b>	<b>2,110.5</b>	<b>5.1</b>	<b>69.6</b>	<b>8.6</b>	<b>2,193.8</b>
<b>Depreciation:</b>					
At 1 January 2013	685.9	1.4	43.3	-	730.6
Acquisition of subsidiary under common control (see note 17)	-	-	4.8	5.3	10.1
Charge for the year	46.9	0.1	2.9	0.1	50.0
At 31 December 2013	732.8	1.5	51.0	5.4	790.7
Charge for the year	49.1	0.1	3.0	0.8	53.0
<b>At 31 December 2014</b>	<b>781.9</b>	<b>1.6</b>	<b>54.0</b>	<b>6.2</b>	<b>843.7</b>
<b>Net book value:</b>					
At 31 December 2013	1,269.0	3.6	12.7	2.4	1,287.7
<b>At 31 December 2014</b>	<b>1,328.6</b>	<b>3.5</b>	<b>15.6</b>	<b>2.4</b>	<b>1,350.1</b>

Infrastructure assets include amounts in respect of assets under construction of £40.4m (2013 - £30.8m). The net book value of fixtures and equipment includes amounts in respect of assets under construction of £nil (2013 - £0.9m).

## 9. Property, Plant and Equipment (continued)

Company	Infrastructure assets £m	Non- operational land and buildings £m	Fixtures and equipment £m	Total £m
<b>Cost:</b>				
At 1 January 2013	1,898.2	5.1	53.8	1,957.1
Additions	104.2	-	4.3	108.5
At 31 December 2013	2,002.4	5.1	58.1	2,065.6
Additions	109.3	-	5.6	114.9
<b>At 31 December 2014</b>	<b>2,111.7</b>	<b>5.1</b>	<b>63.7</b>	<b>2,180.5</b>
<b>Depreciation:</b>				
At 1 January 2013	685.9	1.4	43.3	730.6
Charge for the year	46.9	0.1	2.8	49.8
At 31 December 2013	732.8	1.5	46.1	780.4
Charge for the year	49.5	0.1	2.7	52.3
<b>At 31 December 2014</b>	<b>782.3</b>	<b>1.6</b>	<b>48.8</b>	<b>832.7</b>
<b>Net book value:</b>				
At 31 December 2013	1,269.6	3.6	12.0	1,285.2
<b>At 31 December 2014</b>	<b>1,329.4</b>	<b>3.5</b>	<b>14.9</b>	<b>1,347.8</b>

Infrastructure assets includes amounts in respect of assets under construction of £40.4m (2013 - £30.8m). The net book value of fixtures and equipment include amounts in respect of assets under construction of £nil (2013 - £0.9m).

## 10. Intangible Assets

Computer software	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Cost:</b>				
At the beginning of the year	101.9	98.7	101.8	98.7
Acquisition of subsidiary under common control (see note 17)	-	0.1	-	-
Additions acquired externally	0.5	3.1	0.5	3.1
At the end of the year	102.4	101.9	102.3	101.8
<b>Amortisation / impairment:</b>				
At the beginning of the year	63.2	58.7	63.1	58.7
Acquisition of subsidiary under common control (see note 17)	-	0.1	-	-
Amortisation charge for the year	5.1	4.4	5.1	4.4
At the end of the year	68.3	63.2	68.2	63.1
<b>Net book value:</b>				
At the beginning of the year	38.7	40.0	38.7	40.0
At the end of the year	34.1	38.7	34.1	38.7

Software assets include amounts in respect of assets under construction amounting to £0.3m (2013 - £3.9m).

## 11. Inventories

Group and Company	2014 £m	2013 £m
Materials and consumables	6.8	5.3
Work-in-progress	0.9	1.0
	7.7	6.3

## 12. Trade and Other Receivables

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Current</b>				
Trade receivables (including unbilled consumption)	41.9	47.6	41.8	45.5
Other receivables	0.6	0.6	0.6	0.6
Amounts owed by group undertakings	3.2	3.3	3.2	3.3
Prepayments and accrued income	3.7	3.4	1.8	2.8
	49.4	54.9	47.4	52.2
<b>Non-current</b>				
Amounts owed by group undertakings	-	-	21.2	22.0

Non-current amounts owed by group undertakings to the Company reflect a loan with NIE Networks Services Limited. The loan matures on 31 December 2018.

The largest trade receivable at the year end, due from one customer, is £9.7m (2013 - £10.0m).

## 12. Trade and Other Receivables (continued)

Trade receivables are stated net of an allowance of £0.4m (2013 - £0.6m) for estimated irrecoverable amounts based on past default experience. There are no allowances for estimated irrecoverable amounts included in 'amounts owed by group undertakings' which are all within credit terms.

<b>Group and Company</b>	<b>2014</b> £m	2013 £m
At the beginning of the year	<b>0.6</b>	0.5
Increase in allowance	<b>0.1</b>	0.2
Bad debts written off	<b>(0.3)</b>	(0.1)
<b>At the end of the year</b>	<b>0.4</b>	<b>0.6</b>

The allowance of £0.4m includes £0.3m (2013 - £0.4m) 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:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b> £m	2013 £m	<b>2014</b> £m	2013 £m
<b>Within credit terms:</b>				
Current	<b>39.3</b>	43.9	<b>39.2</b>	41.8
<b>Past due but not impaired:</b>				
Less than 30 days	<b>0.7</b>	2.0	<b>0.7</b>	2.0
30 - 60 days	<b>0.2</b>	0.2	<b>0.2</b>	0.2
60 - 90 days	<b>0.3</b>	0.2	<b>0.3</b>	0.2
+ 90 days	<b>1.4</b>	1.3	<b>1.4</b>	1.3
	<b>41.9</b>	47.6	<b>41.8</b>	45.5

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

	<b>Group</b>		<b>Company</b>	
	<b>2014</b> £m	2013 £m	<b>2014</b> £m	2013 £m
Cash at bank and in hand	<b>3.7</b>	3.8	<b>3.5</b>	3.8
Short-term deposits	<b>20.0</b>	28.0	<b>20.0</b>	28.0
	<b>23.7</b>	31.8	<b>23.5</b>	31.8

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

## 14. Trade and Other Payables

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Trade payables	12.7	13.4	12.2	12.9
Payments received on account	43.6	35.6	43.6	35.6
Amounts owed to group undertakings	0.8	1.8	6.7	9.0
Tax and social security	8.7	9.6	7.9	8.8
Accruals	17.8	24.1	13.6	19.2
	<b>83.6</b>	<b>84.5</b>	<b>84.0</b>	<b>85.5</b>

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
<b>Current</b>	0.5	8.6	9.1
<b>Non-current</b>	7.4	249.9	257.3
<b>Total at 1 January 2013</b>	<b>7.9</b>	<b>258.5</b>	<b>266.4</b>
Receivable	-	29.1	29.1
Released to income statement	(0.5)	(9.3)	(9.8)
<b>Current</b>	<b>0.5</b>	<b>9.3</b>	<b>9.8</b>
<b>Non-current</b>	<b>6.9</b>	<b>269.0</b>	<b>275.9</b>
<b>Total at 31 December 2013</b>	<b>7.4</b>	<b>278.3</b>	<b>285.7</b>
Receivable	-	33.5	33.5
Released to income statement	(0.5)	(10.1)	(10.6)
<b>Current</b>	<b>0.5</b>	<b>10.1</b>	<b>10.6</b>
<b>Non-current</b>	<b>6.4</b>	<b>291.6</b>	<b>298.0</b>
<b>Total at 31 December 2014</b>	<b>6.9</b>	<b>301.7</b>	<b>308.6</b>

## 16. Derivative Financial Instruments

Group and Company - Interest rate swaps	2014 £m	2013 £m
Current assets	11.8	11.3
Non-current assets	<u>487.6</u>	<u>376.9</u>
	<u>499.4</u>	<u>388.2</u>
Current liabilities	(11.8)	(11.3)
Non-current liabilities	<u>(487.6)</u>	<u>(376.9)</u>
	<u>(499.4)</u>	<u>(388.2)</u>

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.

On 22 June 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 the movements in forward interest rates and the very low interest environment in RPI forward prices during the year, together with the impact of the change in the terms of the swaps, negative fair value movements of £195.2m (£73.1m of which is attributable to the restructuring noted above) occurred in 2014 (2013: negative fair value movements of £36.7m). These have been recognised in finance costs in the income statement.

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

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 2014 is considered by the Company to fall within the level 2 fair value hierarchy. The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between level 1 or 3 of the hierarchy during the 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 £52.0m / (£53.9m) (2013 - £59.5m / (£64.9m)). 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 £52.0m / (£53.9m) (2013 - £59.5m / (£64.9m)) 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

	2014 £m	2013 £m
<b>Cost:</b>		
At the beginning of the year	7.9	0.1
Acquisition of subsidiary	-	7.8
	<u>7.9</u>	<u>7.9</u>
<b>At the end of the year</b>	<b>7.9</b>	<b>7.9</b>

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

The investment of £7.8m in 2013 related to the acquisition of NIE Networks Services Limited (formerly NIE Powerteam Limited) from ESBNI Limited. The investment comprised 15,000,000 £1 ordinary shares fully paid up.

The principal activity of NIE Networks Services Limited during the year was to provide construction, maintenance, metering and other services to the Company. As NIE Networks Services Limited provides services to the Company, revenue on consolidation is £nil, except for external sales relating to training services provided and assistance to ESB in relation to storms.

The principal activity of NIE Finance PLC is to be the issuer of the £400m bond. 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 Networks Limited (formerly named NIE Generation Limited) and NIE Limited. These companies are dormant and the carrying value of these investments as at 31 December 2014 is £nil (2013 - £nil).



## 18. Other Financial Liabilities

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Current</b>				
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 group undertakings	-	-	14.8	14.8
	<b>18.2</b>	<b>18.2</b>	<b>18.2</b>	<b>18.2</b>
<b>Non-current</b>				
£175m bond	174.2	174.0	174.2	174.0
£400m bond	398.2	398.1	-	-
Amounts owed to group undertakings	-	-	398.2	398.1
	<b>572.4</b>	<b>572.1</b>	<b>572.4</b>	<b>572.1</b>

Loans and other borrowings outstanding are repayable as follows:

Group and Company	2014 £m	2013 £m
In one year or less or on demand	18.2	18.2
Between two and five years	174.2	174.0
In more than five years	398.2	398.1
	<b>590.6</b>	<b>590.3</b>

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.

The £175m and £400m bonds had fair values at 31 December 2014 of £205.2m (2013 - £201.4m) and £519.4m (2013 - £462.0m) respectively, based on current market prices. The Company's £400m back-to-back loan had a fair value at 31 December 2014 of £519.4m (2013 - £462.0m) based on the fair value of the £400m bond.

The fair value of bonds as at 31 December 2014 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.

The Group and Company were not exposed to movements in interest rates.

The directors consider that the carrying amount of Other Financial Liabilities equates to fair value.

**18. Other Financial Liabilities (continued)**

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

<b>At 31 December 2014</b> <b>Group</b>	On demand £m	Within 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	<b>Total £m</b>
£175m bond (including interest payable)	-	-	12.0	211.1	-	<b>223.1</b>
£400m bond (including interest payable)	-	-	25.5	102.0	578.5	<b>706.0</b>
Trade and other payables	43.6	31.3	-	-	-	<b>74.9</b>
Interest rate swap liabilities	-	-	11.8	105.8	485.0	<b>602.6</b>
	<b>43.6</b>	<b>31.3</b>	<b>49.3</b>	<b>418.9</b>	<b>1,063.5</b>	<b>1,606.6</b>
<b>At 31 December 2013</b> <b>Group</b>	On demand £m	Within 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	<b>Total £m</b>
£175m bond (including interest payable)	-	-	12.0	223.1	-	235.1
£400m bond (including interest payable)	-	-	25.5	102.0	604.0	731.5
Trade and other payables	35.6	39.3	-	-	-	74.9
Interest rate swap liabilities	-	-	9.2	92.3	425.7	527.2
	<b>35.6</b>	<b>39.3</b>	<b>46.7</b>	<b>417.4</b>	<b>1,029.7</b>	<b>1,568.7</b>

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

<b>At 31 December 2014</b> <b>Company</b>	On demand £m	Within 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	<b>Total £m</b>
£175m bond (including interest payable)	-	-	12.0	211.1	-	<b>223.1</b>
Amounts owed to group undertakings	-	-	25.5	102.0	578.5	<b>706.0</b>
Trade and other payables	43.6	32.5	-	-	-	<b>76.1</b>
Interest rate swap liabilities	-	-	11.8	105.8	485.0	<b>602.6</b>
	<b>43.6</b>	<b>32.5</b>	<b>49.3</b>	<b>418.9</b>	<b>1,063.5</b>	<b>1,607.8</b>
<b>At 31 December 2013</b> <b>Company</b>	On demand £m	Within 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	<b>Total £m</b>
£175m bond (including interest payable)	-	-	12.0	223.1	-	235.1
Amounts owed to group undertakings	-	-	25.5	102.0	604.0	731.5
Trade and other payables	35.6	41.1	-	-	-	76.7
Interest rate swap liabilities	-	-	9.2	92.3	425.7	527.2
	<b>35.6</b>	<b>41.1</b>	<b>46.7</b>	<b>417.4</b>	<b>1,029.7</b>	<b>1,570.5</b>

## 19. Analysis of Net Debt

<b>Group</b>	<b>At 1 January 2014 £m</b>	<b>Cash flow £m</b>	<b>Non cash movement £m</b>	<b>At 31 December 2014 £m</b>
Cash and cash equivalents	31.8	(8.1)	-	23.7
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)
£175m bond	(174.0)	-	(0.2)	(174.2)
£400m bond	(398.1)	-	(0.1)	(398.2)
	<u>(558.5)</u>	<u>29.4</u>	<u>(37.8)</u>	<u>(566.9)</u>
<b>Company</b>	<b>At 1 January 2014 £m</b>	<b>Cash Flow £m</b>	<b>Non cash movement £m</b>	<b>At 31 December 2014 £m</b>
Cash and cash equivalents	31.8	(8.3)	-	23.5
Interest payable on £175m bond	(3.4)	12.0	(12.0)	(3.4)
Interest payable to group undertakings	(14.8)	25.5	(25.5)	(14.8)
£175m bond	(174.0)	-	(0.2)	(174.2)
Amounts owed to group undertakings	(398.1)	-	(0.1)	(398.2)
	<u>(558.5)</u>	<u>29.2</u>	<u>(37.8)</u>	<u>(567.1)</u>

## 20. Provisions

Group	Environment £m	Liability and damage claims £m	Other £m	Total £m
<b>Current</b>	0.6	1.1	0.1	1.8
<b>Non-current</b>	4.6	3.6	-	8.2
<b>Total at 1 January 2014</b>	<b>5.2</b>	<b>4.7</b>	<b>0.1</b>	<b>10.0</b>
Applied in the year	-	(0.2)	-	(0.2)
Increase in provisions	-	1.1	-	1.1
Release to income statement	(0.6)	(1.0)	-	(1.6)
<b>Current</b>	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>0.5</b>
<b>Non-current</b>	<b>4.6</b>	<b>4.1</b>	<b>0.1</b>	<b>8.8</b>
<b>Total at 31 December 2014</b>	<b>4.6</b>	<b>4.6</b>	<b>0.1</b>	<b>9.3</b>

Company	Environment £m	Liability and damage claims £m	Other £m	Total £m
<b>Current</b>	0.6	0.6	0.1	1.3
<b>Non-current</b>	4.6	3.5	-	8.1
<b>Total at 1 January 2014</b>	<b>5.2</b>	<b>4.1</b>	<b>0.1</b>	<b>9.4</b>
Applied in the year	-	(0.2)	-	(0.2)
Increase in provisions	-	1.0	-	1.0
Release to income statement	(0.6)	(0.6)	-	(1.2)
<b>Current</b>	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>0.5</b>
<b>Non-current</b>	<b>4.6</b>	<b>3.8</b>	<b>0.1</b>	<b>8.5</b>
<b>Total at 31 December 2014</b>	<b>4.6</b>	<b>4.3</b>	<b>0.1</b>	<b>9.0</b>

### Environment

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

### Liability and damage claims

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

### Other

Provision has been made for costs of early retirement and redundancy which are expected to arise due to Company reorganisation and restructuring. These provisions are expected to be utilised within a period not exceeding five years.

## 21. Pension Commitments

Most employees of the Group are members of Northern Ireland Electricity Pension Scheme (NIEPS 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 6% (increased to 7% from 1 January 2015) of salary and 'Focus' which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the scheme are held under trust and invested by the trustees on the advice of professional investment managers. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets and the day to day administration of the benefits.

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

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

### **Profile of the scheme**

The net liability includes benefits for current employees, former employees and current pensioners. Broadly, about 23% of the liabilities are attributable to current employees, 6% to former employees and 71% to current pensioners. The scheme duration is an indication of the weighted average time until benefit payments are made. For the NIEPS, the duration is around 14 years (2013 – 14 years) based on the last funding valuation.

### **Risks associated with the scheme**

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

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

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

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

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

The trustees insure certain benefits payable on death before retirement.

## 21. Pension Commitments (continued)

Aon Hewitt, the actuaries to NIEPS, have provided a valuation of Focus under IAS 19 as at 31 December 2014 based on the following assumptions (in nominal terms) and using the projected unit credit method:

	2014	2013
Rate of increase in pensionable salaries (per annum)	<b>3.25%</b>	3.55%
Rate of increase in pensions in payment (per annum)	<b>1.90%</b>	2.30%
Discount rate (per annum)	<b>3.50%</b>	4.40%
Inflation assumption (CPI) (per annum)	<b>1.90%</b>	2.30%
Life expectancy:		
Current pensioners (at age 60) - males	<b>26.5 years</b>	26.4 years
Current pensioners (at age 60) - females	<b>29.0 years</b>	28.9 years
Future pensioners (at age 60) - males	<b>*28.1 years</b>	*27.9 years
Future pensioners (at age 60) - females	<b>*30.6 years</b>	*30.5 years

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

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

The valuation under IAS 19 at 31 December 2014 shows a net pension liability (before deferred tax) of £127.9m (2013 - £91.6m). A 0.5% increase / decrease in the assumed discount rate would decrease / increase the net pension liability by £82.5m (2013 - £70.5m). A 0.5% increase / decrease in the assumed inflation rate would increase / decrease the net pension liability by £75.5m (2013 - £67.5m). A one year increase / decrease in life expectancy would increase / decrease the net pension liability by £38.5m (2013 - £34.6m).

### Assets and Liabilities

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

	Group		Company	
	Value at 31 December 2014 £m	Value at 31 December 2013 £m	Value at 31 December 2014 £m	Value at 31 December 2013 £m
Equities – quoted	<b>209.8</b>	223.1	<b>164.0</b>	175.5
Bonds – quoted	<b>400.4</b>	362.5	<b>313.0</b>	285.3
Diversified growth funds – quoted	<b>410.2</b>	397.1	<b>320.6</b>	312.4
Other cash	<b>5.2</b>	7.4	<b>4.1</b>	5.8
Total market value of assets	<b>1,025.6</b>	990.1	<b>801.7</b>	779.0
Actuarial value of liabilities	<b>(1,153.5)</b>	(1,081.7)	<b>(958.4)</b>	(904.0)
Net pension liability	<b>(127.9)</b>	(91.6)	<b>(156.7)</b>	(125.0)

Other assets include cash balances and other investments.

## 21. Pension Commitments (continued)

### Changes in the market value of assets

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Market value of assets at the beginning of the year	990.1	722.9	779.0	722.9
Interest income on scheme assets	42.6	32.6	33.5	30.5
Contributions from employer	26.7	19.9	19.3	18.4
Contributions from scheme members	0.5	0.2	0.2	0.2
Benefits paid	(66.6)	(47.8)	(55.7)	(45.6)
Administration expenses paid	(1.4)	(1.1)	(1.2)	(1.1)
Remeasurement gains on scheme assets	33.4	45.5	26.3	42.7
Acquisition of subsidiary under common control (see note 17)	-	206.9	-	-
Re-apportionment of exiting participant's assets	0.3	11.0	0.3	11.0
Market value of assets at the end of the year	<b>1,025.6</b>	990.1	<b>801.7</b>	779.0

### Changes in the actuarial value of liabilities

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Actuarial value of liabilities at the beginning of the year	1,081.7	863.1	904.0	863.1
Interest expense on pension liability	46.1	37.9	38.6	36.1
Current service cost	7.9	4.0	2.5	2.6
Curtailment loss	1.9	-	0.4	-
Contributions from scheme members	0.5	0.2	0.2	0.2
Benefits paid	(66.6)	(47.8)	(55.7)	(45.6)
Acquisition of subsidiary under common control (see note 17)	-	176.4	-	-
Re-apportionment of exiting participant's liabilities	-	3.6	-	3.6
Settlement cost in relation to bulk transfer	(0.4)	-	(0.4)	-
Actuarial losses on scheme liabilities – financial assumptions	82.4	44.3	68.8	44.0
Actuarial value of liabilities at the end of the year	<b>1,153.5</b>	1,081.7	<b>958.4</b>	904.0

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 has given rise to a net settlement credit of £0.4m recognised in the Income Statement.

The curtailment loss arising in 2014 reflects the past service costs associated with the employees who left the company following a voluntary selective severance scheme.

The Group expects to make contributions of £22.3m to Focus in 2015, pending the outcome of the on-going funding valuation.

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	
	2014 £m	2013 £m	2014 £m	2013 £m
Current service cost	(7.9)	(4.0)	(2.5)	(2.6)
Administration expenses paid	(1.4)	(1.1)	(1.2)	(1.1)
Settlement cost in relation to bulk transfer	0.4	-	0.4	-
Curtailment loss	(1.9)	-	(0.4)	-
Total operating charge	<b>(10.8)</b>	(5.1)	<b>(3.7)</b>	(3.7)

**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**

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	2013	<b>2014</b>	2013
	<b>£m</b>	£m	<b>£m</b>	£m
Interest income on scheme assets	<b>42.6</b>	32.6	<b>33.5</b>	30.5
Interest expense on liabilities	<b>(46.1)</b>	(37.9)	<b>(38.6)</b>	(36.1)
Net pension scheme interest	<b>(3.5)</b>	(5.3)	<b>(5.1)</b>	(5.6)

The actual return on Focus assets was £76.0m (2013 - £78.1m) for the Group and £59.8m (2013 - £73.2m) for the Company.

**Analysis of amounts recognised in the Statement of Comprehensive Income**

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	2013	<b>2014</b>	2013
	<b>£m</b>	£m	<b>£m</b>	£m
Remeasurement gains on scheme assets	<b>33.4</b>	45.5	<b>26.3</b>	42.7
Actuarial losses on scheme liabilities: financial assumptions	<b>(82.4)</b>	(44.3)	<b>(68.8)</b>	(44.0)
Net (losses) / gains	<b>(49.0)</b>	1.2	<b>(42.5)</b>	(1.3)

The cumulative actuarial losses recognised in the Group and Company Statements of Comprehensive Income since 1 April 2004 are £117.5m and £119.4m respectively (2013 – £68.5m and £76.9m respectively). The directors are unable to determine how much of the net pension liability recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since the inception of Focus. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income shown before 1 April 2004.

**Analysis of amounts recognised in the Statement of Changes in Equity**

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	2013	<b>2014</b>	2013
	<b>£m</b>	£m	<b>£m</b>	£m
Net reapportionment of exiting participant's net assets	<b>0.3</b>	7.4	<b>0.3</b>	7.4



## 22. Share Capital and Equity

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £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	202.3	207.1	203.2	203.9
	<u>269.2</u>	<u>274.0</u>	<u>270.1</u>	<u>270.8</u>

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:	2014 £m	2013 £m
145,566,431 ordinary shares of 25p each	<u>36.4</u>	<u>36.4</u>

### Dividend

The following dividends were paid by the Group

	2014 £m	2013 £m
9.62 pence per allotted share	<u>14.0</u>	<u>-</u>

## 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:

	2014 £m	2013 £m
Within one year	1.8	1.7
After one year but not more than five years	2.2	2.3
More than five years	<u>1.0</u>	<u>1.0</u>
	<u>5.0</u>	<u>5.0</u>

## 24. Commitments and Contingent Liabilities

### (i) Capital commitments

At 31 December 2014 the Group and Company had contracted future capital expenditure in respect of property, plant and equipment of £5.6m (2013 - £13.3m) and computer software assets of £3.2m (2013 - £2.3m).

### (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 (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 knows of no precedent for the use of such an approach, the Company has requested that the Tribunal lodge an appeal to the Court of Appeal. Until the outcome of this appeal, 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.

In the event that any compensation is payable following the Court of Appeal ruling, NIE will seek to recover the payment through a mechanism in the regulatory framework.

## 25. Financial Commitments

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

## 26. Related Party Disclosures

### Remuneration of key management personnel

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

	2014 £m	2013 £m
Salaries and short-term employee benefits	1.3	1.3
Post-employment benefits	0.3	0.3
Other long-term benefits	0.1	0.1
	1.7	1.7

### Group

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

A full list of the subsidiary undertakings of ESB 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 related parties and the balances outstanding are disclosed below:

Group	Interest (paid)/ received £m	Revenue from related party £m	Charges from related party £m	Other transactions with related party £m	Amounts owed by related party at 31 December £m	Amounts owed to related party at 31 December £m
<b>Year ended 31 December 2014</b>						
ESBNI	84.0	-	-	-	-	0.1
ESB subsidiaries	-	20.1	(4.5)	(13.9)	3.3	0.7
	<b>84.0</b>	<b>20.1</b>	<b>(4.5)</b>	<b>(13.9)</b>	<b>3.3</b>	<b>0.8</b>
<b>Year ended 31 December 2013</b>						
ESBNI	-	-	-	-	-	-
ESB subsidiaries	-	20.0	(48.0)	(0.1)	3.3	1.8
	-	20.0	(48.0)	(0.1)	3.3	1.8

Outstanding balances with subsidiaries are unsecured. Current account balances are settled on a monthly basis. Amounts owed to related parties primarily arise from transactions relating to regulated sales and services purchased from ESB subsidiaries. Transactions with ESB group undertakings are determined on an arm's length basis. Interest received relates to the interest accretion paid during the year in relation to the back to back swaps with ESBNI Limited detailed in note 16.

Other transactions with ESB subsidiaries in the year primarily reflect dividends paid to the shareholder and payments received for assistance during storms. In 2013, other transactions with ESBNI primarily reflect costs incurred for assistance during storms.

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

Company	Interest (paid)/ received £m	Revenue from related party £m	Charges from related party £m	Other transactions with related party £m	Amounts owed by related party at 31 December £m	Amounts owed to related party at 31 December £m
<b>Year to 31 December 2014</b>						
Company's subsidiaries	(25.9)	1.2	(62.8)	-	21.2	418.9
ESBNI	84.0	-	-	-	-	0.1
ESB subsidiaries	-	20.1	(4.5)	(13.9)	3.3	0.7
	<b>58.1</b>	<b>21.3</b>	<b>(67.3)</b>	<b>(13.9)</b>	<b>24.5</b>	<b>419.7</b>
<b>Year to 31 December 2013</b>						
Company's subsidiaries	(25.5)	0.3	(16.6)	-	22.0	420.1
ESBNI	-	-	-	-	-	-
ESB subsidiaries	-	20.0	(48.0)	(0.1)	3.3	1.8
	<b>(25.5)</b>	<b>20.3</b>	<b>(64.6)</b>	<b>(0.1)</b>	<b>25.3</b>	<b>421.9</b>

Amounts owed by related parties to the Company at 31 December 2014 include the loan advanced by NIE to NIE Networks Services Limited in 2013 (see note 12).

Amounts owed by the Company to related parties at 31 December 2014 and at 31 December 2013 include the £400m loan and the associated interest.

### Other related parties

During the year the Company contributed £20.2m (2013 - £19.1m) to NIEPS.



[nie.co.uk](http://nie.co.uk)

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