Unaudited Interim Report & Accounts

Six months ended 30 June 2013

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INTERIM MANAGEMENT REPORT

The directors of Northern Ireland Electricity Limited (NIE) present their unaudited interim report and accounts for the six months ended 30 June 2013.

As the company changed its accounting reference date from 31 March to 31 December, the unaudited interim report and accounts presented are for the six month period ended 30 June 2013 with the comparative unaudited period reported being the six months ended 30 September 2012 as reported in the prior year interim report and accounts. The last audited report and accounts was for the nine month period ended 31 December 2012.

The interim accounts have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" and the Disclosure and Transparency Rules of the Financial Services Authority. The interim accounts consolidate the results of NIE and its subsidiary undertakings (the Group).

The accounts for the periods to 30 September 2012 and 31 December 2012 have been restated for the impact of the adoption of IAS 19 (revised) 'Employee Benefits', applicable from 1 January 2013 but applied retrospectively. Further details are disclosed in Note 1 to the interim accounts.

Results and Dividends

The results for the six month period ended 30 June 2013 show a profit for the period of £23.8m (six months to 30 September 2012 - £34.2m restated). No dividends were paid during the period (six months to 30 September 2012 - dividends paid £nil). A financial review is set out below.

Background Information

The Group's principal activity is the transmission and distribution of electricity in Northern Ireland through NIE Transmission and Distribution (T&D). During the period NIE's Participate in Transmission Licence which regulated the separate Transmission Owner, Distribution and Land Bank businesses was replaced by two separate successor licences, Participate in Transmission Licence and Electricity Distribution Licence (the Licences), covering its roles as owner of the transmission and distribution assets and distribution system operator in Northern Ireland. During the period NIE continued to be responsible for the planning, development, construction and maintenance of the transmission and distribution network and for the operation of the distribution network.

On 12 April 2013 the transmission arrangements between NIE and the electricity transmission system operator in Northern Ireland (SONI) were certified by the European Commission under Article 9(9) of Directive 2009/72/EC (the IME 3 Directive), subject to a number of conditions including the transfer of the transmission planning function to SONI. NIE is liaising with the Utility Regulator and SONI on implementation arrangements for the transfer which is expected to be completed by April 2014.

The T&D network comprises a number of interconnected networks of overhead lines and underground cables which are used for the transfer of electricity to c840,000 consumers via a number of substations. There are 2,200km (circuit length) of the transmission system, c45,000km of the distribution system and approximately 290 major substations. NIE's transmission system is connected to that of the Republic of Ireland (RoI) through a 275kV interconnector and to that in Scotland via the Moyle Interconnector.

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

The Company is regulated by the Northern Ireland Authority for Utility Regulation (the Utility Regulator) and the Department of Enterprise, Trade and Investment (DETI). Each is given specific powers, duties and functions under relevant legislation. Under its Licences, NIE is required to develop and maintain 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.

T&D is subject to a price control, defined in a formula set out in the Licences, which limits the revenue it may earn and the prices it may charge. The principles of price regulation employed in the Licence conditions reflect the general duties of the Utility Regulator and DETI under relevant legislation. These include having regard for the need to ensure that NIE is able to finance its authorised activities.

Directors

The directors who held office during the period were as follows:

Stephen Kingon CBE (independent non-executive Chairman)
Rotha Johnston CBE (independent non-executive director)
Ronnie Mercer CBE (independent non-executive director)
Joe O'Mahony (Managing Director)
Peter Ewing (Deputy Managing Director and Director of Regulation)

Business Overview

Key achievements during the period included:

- Continued strong focus on managing health and safety;
- The rapid reconnection of customers following the damage to the network caused by the snow storm conditions in March 2013;
- Significant effort made by NIE to support its fifth five year price control (RP5) review which was referred to the Competition Commission in April 2013;
- Continued investment in the Northern Ireland electricity infrastructure: to replace worn assets; service increased customer demand; facilitate connection of renewable generation and maintain safety and security of supply;
- Contribution of approximately £70m into the Northern Ireland economy through employment and contracts with local businesses.

Financial Review

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

On 30 April 2013 the Utility Regulator referred the price control for RP5, to be effective from 1 January 2013, to the Competition Commission for determination. The Competition Commission is expected to issue its final determination by the end of December 2013.

As a consequence, the KPIs cannot be calculated based on regulated entitlement for the six months ended 30 June 2013 as regulated entitlement will not be known until the Competition Commission makes its final determination. For the purpose of the interim accounts, in the absence of an agreed price control for the period, financial KPIs for the six months ended 30 June 2013 are calculated based on revenues during the period without any adjustment for the over or under-recovery in respect of regulated entitlement. The comparative figures for the six month period to 30 September 2012 and the nine month period to 31 December 2012 are calculated based on regulated entitlement.

On the above basis, the Group operating profit KPI increased from £48.4m for the six months to 30 September 2012 to £55.9m for the six months to 30 June 2013 reflecting a higher depreciation charge in the six months to 30 September 2012 and higher use of system sales in the six months to 30 June 2013 offset by increased costs associated with the March 2013 snow storm.

The FFO interest cover KPI for the six months to 30 June 2013 increased slightly to 3.6 times compared to 3.5 times for the six months to 30 September 2012. FFO interest cover is calculated as funds from operations divided by net interest charged to the income statement.

Financial Results

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

	Six months ended		Nine months ended
	30 June 2013 Unaudited £m	30 September 2012 Unaudited £m restated	**31 December 2012 Audited £m restated**
Revenue	**127.5**	136.6	**201.9**
Operating profit	**55.9**	63.4	**84.9**
Net debt	**527.9**	540.0	**551.5**
Net assets	**231.6**	191.5	**202.8**

Income Statement

- Revenue of £127.5m (six months to 30 September 2012 - £136.6m) largely comprises revenue in respect of use of the transmission and distribution systems and PSO levies. The decrease in revenue largely reflects higher income from PSO tariffs in the six months to 30 September 2012 primarily due to under-recovery in prior periods.

- Operating costs have decreased from £73.2m as restated in the six months to 30 September 2012 to £71.6m largely reflecting lower net depreciation due to non-recurring accelerated depreciation in the six months to September 2012, offset by additional costs due to repairs to the network following the damage caused by the snow storm in March 2013.

- Operating profit was £55.9m (six months to 30 September 2012 - £63.4m restated) primarily reflecting a decrease in PSO revenue and lower net depreciation offset by higher storm costs.

- Net finance costs have increased from £20.5m as restated to £21.3m mainly as a result of higher net pension scheme interest and lower capitalised interest in the period.

- Tax charge for the period was £10.8m (six months to 30 September 2012 - £8.5m restated). The increase in the tax charge primarily reflects the impact of a reduction in future years' tax rates at 30 September 2012 not recurring at 30 June 2013.

- Profit for the period was £23.8m (six months to 30 September 2012 - £34.2m restated) largely reflecting reduced revenue and an increase in the tax charge.

Balance Sheet

- Non-current assets at 30 June 2013 were £1,686.4m (31 December 2012 - £1,664.3m). The increase mainly reflects capital expenditure offset by depreciation during the period.

- Current assets at 30 June 2013 were £117.1m (31 December 2012 - £107.6m) primarily reflecting increased cash balances offset by a reduction in trade and other receivables reflecting seasonality of sales.

- Current liabilities of £123.2m (31 December 2012 - £137.3m) mainly reflect lower current tax payable due to the release of over-provision from prior periods and lower interest payable on borrowings due to timing of interest payments offset by increased trade and other payables.

- Non-current liabilities at 30 June 2013 were £1,448.7m (31 December 2012 - £1,431.8m). The increase largely reflects an increase in deferred tax liabilities of £20.7m due to an under provision in prior periods and an increase in deferred income reflecting customer contributions in the period, offset by a reduction in the IAS 19 pension liability. The pension liability has reduced by £11.0m to £129.2m at 30 June 2013 due to higher investment returns on pension assets and a reduction in the discount rate applied to pension liabilities offset by higher inflation used to calculate pension liabilities.

Cash flow

- Net cash flows from operating activities of £67.9m (six months to 30 September 2012 - £48.4m) offset by cash outflows in respect of investing activities of £51.0m (six months to 30 September 2012 - £59.3m) resulted in a net increase in cash and cash equivalents of £16.9m during the period. Cash flows from operating activities increased mainly as a result of lower interest paid due to timing of payments and favourable movement in working capital.

- There were no financing activities during either the current or comparative periods.

Operational Review

Operational KPIs

The directors have determined that the following KPIs are the most effective measures of progress towards achieving the Group's operational objectives:

- performance against the overall and guaranteed standards set by the Utility Regulator, the majority of which apply to services provided by NIE (e.g. the timely restoration of consumers' supplies following an interruption and prescribed times for responding to consumers' voltage complaints);
- the number of complaints which the Consumer Council for Northern Ireland (Consumer Council) takes up on behalf of consumers (Stage 2 Complaints); and
- the average number of minutes lost per consumer for the period through distribution fault interruptions, excluding the effect of major storms (CML).

	Six months ended		**Nine months ended**
	30 June 2013	30 September 2012	**31 December 2012**
CML	**29**	25	**36**
Overall standards - defaults	**None**	None	**None**
Guaranteed standards - defaults	**None**	None	**None**
Stage 2 complaints to the Consumer Council	**3**	1	**1**

The number of CML was 29 minutes (six months to 30 September 2012 - 25). The number of CML is slightly higher for the six months to 30 June 2013 compared to the six months to 30 September 2012 due to the inclusion of the winter months.

A key priority for NIE is to consistently provide the highest standards in customer service and network performance. During the six month period all the overall standards were achieved and there were no defaults against the guaranteed standards (six months to 30 September 2012 - none).

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. The number of Stage 2 Complaints in the six month period remained low, at three (six months to 30 September 2012 - 1), reflecting continued strong focus on customer service performance.

NIE continues to improve incrementally its emergency response capabilities during severe weather events in order to effectively restore supply to all consumers. The significant commitment of its frontline staff helps to ensure that NIE effectively manages this very important aspect of its business. This was tested in March 2013 when a severe snow storm resulted in widespread damage to the T&D network and the loss of supply to around 150,000 consumers. T&D's emergency plan was fully implemented with the mobilisation of employees and external contractors including additional resources from the RoI. Helicopters were deployed to assist in locating and assessing damage and delivering equipment and crew to locations otherwise inaccessible due to heavy snow. Supplies of electricity were restored to 99% of the affected customers within 48 hours.

Investment

During the period ended 30 June 2013 NIE has continued to invest in its infrastructure to replace worn network assets, to accommodate increasing load and new consumer connections and to meet requirements in respect of the connection of renewable generation. The level of investment remained in line with the rate of investment during the RP4 price control period.

In its business plan submission to the Utility Regulator for RP5, NIE proposed that the level of investment would need to increase significantly, with the focus of investment driven by: the need to replace worn network assets installed as part of significant network development during the 1950s and 1960s; an increasing need for large transmission related projects; and meeting the requirements of new legislation.

NIE's strategy is to continue to grow and maintain a secure and sustainable electricity network to meet the demands of Northern Ireland's electricity market, including the connection of renewable generation to support the Northern Ireland Assembly in reaching its targets in respect of electricity consumption from renewable sources.

In order to further strengthen the interconnection of the electricity networks of Northern Ireland and the RoI, NIE continued to work jointly with EirGrid on the development of the 400kV Tyrone-Cavan interconnector. A public inquiry by the Planning Appeals Commission (PAC) in respect of NIE's planning application commenced in March 2012. The public inquiry was adjourned following a request from the PAC for the planning application to be re-advertised and for relevant environmental statements to be modified. A revised planning application and modified environmental statements were submitted by NIE to the Northern Ireland Planning Service in April 2013. No date has yet been set for re-commencement of the public inquiry.

Principal Risks and Uncertainties

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

NIE's risk management framework comprises:

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

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

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

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

- an unsatisfactory outcome from the Competition Commission's determination of the RP5 price control;

- the failure of the NIE Health and Safety Management System with exposure of employees, contractors and the general public to risk of injury and the associated potential liability and/or loss of reputation for NIE;

- widespread and prolonged failure of the transmission or distribution network and failing to respond adequately following damage to the network from adverse weather conditions;

- inability to recruit and retain employees with the necessary knowledge and skills; and

- other operational, financial and reputational risks arising from failing to meet consumer service standards or business continuity, IT Security and Data Protection issues.

GROUP INCOME STATEMENT

	Note	Six months ended 30 June 2013 Unaudited £m	Six months ended 30 September 2012 Unaudited £m restated	Nine months ended 31 December 2012 Audited £m restated
Continuing operations				
Revenue	2	**127.5**	136.6	**201.9**
Operating costs		**(71.6)**	(73.2)	**(117.0)**
Operating profit		**55.9**	63.4	**84.9**
Finance revenue		**0.1**	0.2	**0.2**
Finance costs		**(18.6)**	(18.5)	**(27.9)**
Net pension scheme interest		**(2.8)**	(2.2)	**(3.5)**
Net finance costs	3	**(21.3)**	(20.5)	**(31.2)**
Profit before tax		**34.6**	42.9	**53.7**
Tax charge	4	**(10.8)**	(8.7)	**(9.4)**
Profit for the period attributable to the equity holders of the parent company		**23.8**	34.2	**44.3**

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2013 Unaudited £m	Six months ended 30 September 2012 Unaudited £m restated	Nine months ended 31 December 2012 Audited £m restated
Profit for the financial period	**23.8**	34.2	**44.3**
Other comprehensive income/(expense):			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain/(loss) on pension scheme assets and liabilities	**6.5**	(46.4)	**(42.7)**
Tax (charge)/credit relating to actuarial gain/(loss) on pension scheme assets and liabilities	**(1.5)**	11.2	**9.5**
Net other comprehensive income/(expense) for the period	**5.0**	(35.2)	**(33.2)**
Total net comprehensive income/(expense) for the period	**28.8**	(1.0)	**11.1**

GROUP BALANCE SHEET

	Note	**30 June 2013 Unaudited £m**	30 September 2012 Unaudited £m	**31 December 2012 Audited £m**
Non-current assets				
Property, plant and equipment	5	**1,248.2**	1,212.9	**1,226.5**
Intangible assets	5	**39.3**	47.4	**40.0**
Derivative financial assets	7	**398.9**	366.4	**397.8**
		1,686.4	1,626.7	**1,664.3**
Current assets				
Inventories		**7.1**	6.1	**6.3**
Trade and other receivables	7	**43.1**	43.4	**51.6**
Derivative financial assets	7	**11.4**	8.6	**11.1**
Cash and cash equivalents		**55.5**	40.5	**38.6**
		117.1	98.6	**107.6**
TOTAL ASSETS		**1,803.5**	1,725.3	**1,771.9**
Current liabilities				
Trade and other payables	7	**78.4**	86.9	**74.4**
Current tax payable		**10.0**	19.0	**22.6**
Deferred income		**9.7**	9.1	**9.1**
Financial liabilities:				
Derivative financial liabilities	7	**11.4**	8.6	**11.1**
Other financial liabilities	7	**11.4**	8.8	**18.3**
Provisions		**2.3**	1.0	**1.8**
		123.2	133.4	**137.3**
Non-current liabilities				
Deferred tax liabilities		**77.9**	57.7	**57.2**
Deferred income		**263.7**	249.5	**257.3**
Financial liabilities:				
Derivative financial liabilities	7	**398.9**	366.4	**397.8**
Other financial liabilities	7	**572.0**	571.7	**571.8**
Provisions		**7.0**	8.4	**7.5**
Pension liability	9	**129.2**	146.7	**140.2**
		1,448.7	1,400.4	**1,431.8**
TOTAL LIABILITIES		**1,571.9**	1,533.8	**1,569.1**
NET ASSETS		**231.6**	191.5	**202.8**
Equity				
Share capital		**36.4**	36.4	**36.4**
Share premium		**24.4**	24.4	**24.4**
Capital redemption reserve		**6.1**	6.1	**6.1**
Accumulated profits		**164.7**	124.6	**135.9**
TOTAL EQUITY		**231.6**	191.5	**202.8**

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

Joe O'Mahony
Managing Director

Date: 29 August 2013

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m restated	Total £m restated
At 1 April 2012	**36.4**	**24.4**	**6.1**	**125.6**	**192.5**
Profit for the period	-	-	-	44.3	44.3
Net other comprehensive expense for the period	-	-	-	(33.2)	(33.2)
Total net comprehensive income for the period	-	-	-	11.1	11.1
Deferred tax charges relating to items charged in changes in equity	-	-	-	(0.8)	(0.8)
At 1 January 2013	**36.4**	**24.4**	**6.1**	**135.9**	**202.8**
Profit for the period	-	-	-	23.8	23.8
Net other comprehensive income for the period	-	-	-	5.0	5.0
Total net comprehensive income for the period	-	-	-	28.8	28.8
At 30 June 2013	**36.4**	**24.4**	**6.1**	**164.7**	**231.6**

	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m restated	Total £m restated
At 1 April 2012	**36.4**	**24.4**	**6.1**	**125.6**	**192.5**
Profit for the period	-	-	-	34.2	34.2
Net other comprehensive expense for the period	-	-	-	(35.2)	(35.2)
Total net comprehensive expense for the period	-	-	-	(1.0)	(1.0)
At 30 September 2012	**36.4**	**24.4**	**6.1**	**124.6**	**191.5**

GROUP CASH FLOW STATEMENT

	Six months ended 30 June 2013 Unaudited £m	30 September 2012 Unaudited £m restated	Nine months ended 31 December 2012 Audited £m restated
Cash flows from operating activities			
Profit for the period	**23.8**	34.2	**44.3**
Adjustments for:			
Tax charge	**10.8**	8.7	**9.4**
Net finance costs	**21.3**	20.5	**31.2**
Depreciation of property, plant and equipment	**24.6**	23.7	**35.8**
Release of customers' contributions and grants	**(4.9)**	(4.5)	**(6.9)**
Amortisation of intangible assets	**2.1**	8.1	**15.7**
Contributions in respect of property, plant and equipment	**11.9**	8.4	**19.1**
Defined benefit pension charge less contributions paid	**(7.3)**	(7.4)	**(11.7)**
Net movement in provisions	**-**	0.1	**-**
Operating cash flows before movement in working capital	**82.3**	91.8	**136.9**
Decrease/(increase) in working capital	**15.2**	(5.4)	**(24.7)**
Cash generated from operations	**97.5**	86.4	**112.2**
Interest received	**0.1**	0.2	**0.2**
Interest paid	**(25.6)**	(37.6)	**(37.5)**
Current taxes paid	**(4.1)**	(0.6)	**(0.6)**
Net cash flows from operating activities	**67.9**	48.4	**74.3**
Cash flows from investing activities			
Purchase of property, plant and equipment	**(49.7)**	(50.3)	**(77.7)**
Purchase of intangible assets	**(1.3)**	(9.0)	**(9.4)**
Net cash flows used in investing activities	**(51.0)**	(59.3)	**(87.1)**
Net increase/(decrease) in cash and cash equivalents	**16.9**	(10.9)	**(12.8)**
Cash and cash equivalents at beginning of period	**38.6**	51.4	**51.4**
Cash and cash equivalents at end of period	**55.5**	40.5	**38.6**

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

NOTES TO THE INTERIM ACCOUNTS

1. Basis of Preparation

The interim accounts for the six months ended 30 June 2013 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" and the Disclosure and Transparency Rules of the Financial Services Authority.

The interim accounts consolidate the results of Northern Ireland Electricity Limited (NIE or the Company) and its subsidiary undertakings (the Group).

The interim accounts have been prepared on the basis of the accounting policies set out in the accounts for the nine month period ended 31 December 2012, except for the adoption of new standards and interpretations effective for the period. The following amendments to existing standards and interpretations, effective from 1 January 2013, which have had an impact on the accounts are outlined below:

IFRS 13 Fair Value Measurement
IFRS 13 provides guidance on how to measure fair value of financial assets and liabilities and outlines specific disclosure requirements. The standard has not impacted the fair value measurements but has resulted in additional disclosures on fair value which are provided in note 7 to the interim accounts.

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

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

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

Period ended	**30 June 2013 £m**	30 September 2012 £m	**31 December 2012 £m**
Changes to Group Income Statement:			
Increase in operating costs	(0.1)	(0.1)	(0.2)
Increase in net interest on defined benefit liability	(1.9)	(0.1)	(0.2)
Decrease in tax charge	0.5	-	0.1
Profit for the period	**(1.5)**	**(0.2)**	**(0.3)**
Changes to Group Statement of Comprehensive Income:			
Increase/decrease in actuarial gain/loss on pension scheme assets	2.0	0.2	0.4
Increase/decrease in tax charge/credit relating to actuarial gain/loss on pension scheme assets and liabilities	(0.5)	-	(0.1)
Net other comprehensive income/(expense) for the period	**1.5**	**0.2**	**0.3**
Total net comprehensive income/(expense) for the period	**-**	**-**	**-**

The application of the revised standard has no impact on total equity or on the pension liability reported in the balance sheet.

1. Basis of Preparation (continued)

The interim accounts have been prepared on the going concern basis as the directors, having considered available relevant information, have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for a period of 12 months from the date of approval of the interim report and accounts.

The interim accounts have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on "Review of Interim Financial Information performed by the Independent Auditor of the Entity".

The information shown for the period ended 31 December 2012 does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and has been extracted from the Group's report for the period ended 31 December 2012, which has been filed with the Registrar of Companies. The report of the auditors on the accounts contained within the Group's report for the period ended 31 December 2012 was unqualified and did not contain a statement under either Section 498(2) or Section 498(3) of the Companies Act 2006 regarding inadequate accounting records or a failure to obtain necessary information and explanations.

2. Revenue

	Six months ended		**Nine months ended**
	30 June 2013 £m	30 September 2012 £m restated	**31 December 2012 £m restated**
Revenue:			
Sales revenue	**122.9**	132.3	**195.4**
Amortisation of customer contributions from deferred income	**4.6**	4.3	**6.5**
	127.5	136.6	**201.9**
Interest receivable	**0.1**	0.2	**0.2**
	127.6	136.8	**202.1**

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

3. Net Finance Costs

	Six months ended 30 June 2013 £m	Six months ended 30 September 2012 £m restated	Nine months ended 31 December 2012 £m restated
Interest receivable:			
Interest receivable	**0.1**	0.2	**0.2**
Interest payable:			
£175m bond	**(6.0)**	(6.0)	**(9.1)**
£400m bond	**(12.6)**	(12.8)	**(19.1)**
	(18.6)	(18.8)	**(28.2)**
Less: capitalised interest	**0.1**	0.4	**0.4**
Total interest charged to the income statement	**(18.5)**	(18.4)	**(27.8)**
Other finance costs:			
Amortisation of financing charges	**(0.1)**	(0.1)	**(0.1)**
Total finance costs	**(18.6)**	(18.5)	**(27.9)**
Net interest on defined benefit liability	**(2.8)**	(2.2)	**(3.5)**
Net finance costs	**(21.3)**	(20.5)	**(31.2)**

4. Tax Charge

	Six months ended 30 June 2013 £m	Six months ended 30 September 2012 £m restated	Nine months ended 31 December 2012 £m restated
Current tax (credit)/charge			
UK corporation tax at 23.5% (2012 - 24%)	**5.7**	8.3	**11.9**
Corporation tax over provided in previous periods	**(14.2)**	-	**-**
Total current tax (credit)/charge	**(8.5)**	8.3	**11.9**
Deferred tax charge/(credit)			
Origination and reversal of temporary differences in current period	**2.7**	3.2	**1.3**
Origination and reversal of temporary differences relating to prior periods	**16.6**	-	**-**
Effect of decrease in tax rate on opening liability	**-**	(2.8)	**(3.8)**
Total deferred tax charge/(credit)	**19.3**	0.2	**(2.5)**
Total tax charge	**10.8**	8.7	**9.4**

5. Capital Expenditure

	Six months ended 30 June 2013 £m	Six months ended 30 September 2012 £m	Nine months ended 31 December 2012 £m
Property, plant and equipment	**46.3**	50.1	**75.9**
Intangible assets - computer software	**1.4**	7.8	**7.9**
	47.7	57.9	**83.8**

No assets were disposed of by the Group during the period (6 months to 30 September 2012 - £nil).

6. Capital Commitments

At 30 June 2013 the Group had contracted future capital expenditure in respect of property, plant and equipment of £8.8m (6 months to 30 September 2012 - £5.8m) and computer software assets of £1.9m (6 months to 30 September 2012 - £1.0m).

7. Financial instruments

An overview of financial instruments, other than cash and short-term deposits, held by the Group as at 30 June 2013 is as follows:

As at 30 June 2013	**Loans and receivables £m**	**Fair value profit or loss £m**
Financial assets:		
Trade and other receivables	43.1	-
Interest rate swaps	-	11.4
Total current	**43.1**	**11.4**
Interest rate swaps	-	398.9
Total non-current	**-**	**398.9**
Total financial assets	**43.1**	**410.3**
Financial liabilities:		
Trade and other payables	78.4	-
Interest rate swaps	-	11.4
Interest bearing loans and borrowings	11.4	-
Total current	**89.8**	**11.4**
Interest rate swaps	-	398.9
Interest bearing loans and borrowings	572.0	-
Total non-current	**572.0**	**398.9**
Total financial liabilities	**661.8**	**410.3**

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

7. Financial instruments (continued)

At the time of the acquisition of the Company by ESB from Viridian Group Limited (Viridian Group) in December 2010, a £550m portfolio of RPI interest rate swaps, previously held by a Viridian Group company were novated to the Company. Under these RPI interest rate swap arrangements, the Company pays an average fixed rate of interest of 2.38% indexed by RPI and receives a variable rate of interest based on LIBOR. RPI accretion is accounted for as interest in the Group Income Statement. The swaps have maturity dates between 2026 and 2036 (average maturity 2031) and have a mandatory break date on 22 December 2015. On 1 April 2011, the Company entered into interest rate swap arrangements with ESBNI Limited (ESBNI), the immediate parent undertaking of the Company, which have identical matching terms to the swaps novated to the Company in December 2010.

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

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 7 Financial Instruments: Disclosures for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of interest rate swaps as at 30 June 2013 is considered by the Company to fall within the level 2 fair value hierarchy. The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between level 1 or 3 of the hierarchy during the period.

8. Net Debt

	30 June 2013 £m	30 September 2012 £m	**31 December 2012 £m**
Cash at bank and in hand	**55.5**	**40.5**	**38.6**
Debt due before 1 year:			
Interest payable on £175m bond	**(9.5)**	**(0.4)**	**(3.4)**
Interest payable on £400m bond	**(1.9)**	**(8.4)**	**(14.9)**
	(11.4)	**(8.8)**	**(18.3)**
Debt due after 1 year:			
£175m bond	**(174.0)**	**(173.8)**	**(173.9)**
£400m bond	**(398.0)**	**(397.9)**	**(397.9)**
	(572.0)	**(571.7)**	**(571.8)**
Total net debt	**(527.9)**	**(540.0)**	**(551.5)**

9. Pension Commitments

	30 June 2013 £m	30 September 2012 £m	**31 December 2012 £m**
Market value of assets	**750.5**	699.9	**722.9**
Actuarial value of liabilities	**(879.7)**	(846.6)	**(863.1)**
Net pension liability	**(129.2)**	(146.7)	**(140.2)**

Changes in the market value of assets

	30 June 2013 £m	30 September 2012 £m restated	**31 December 2012 £m restated**
Market value of assets at beginning of the period	**722.9**	720.5	**720.5**
Interest income	**15.1**	16.8	**25.5**
Contributions from employer	**9.0**	9.0	**13.8**
Contributions from scheme members	**0.1**	0.1	**0.2**
Benefits paid	**(21.9)**	(22.5)	**(33.8)**
Actuarial gain/(loss) on scheme assets	**25.3**	(24.0)	**(3.3)**
Market value of assets at end of the period	**750.5**	699.9	**722.9**

Changes in the actuarial value of liabilities

	30 June 2013 £m	30 September 2012 £m restated	**31 December 2012 £m restated**
Actuarial value of liabilities at beginning of the period	**863.1**	826.3	**826.3**
Interest cost	**17.9**	19.3	**29.0**
Current service cost	**1.7**	1.6	**2.0**
Curtailment loss	**-**	-	**0.1**
Contributions from scheme members	**0.1**	0.1	**0.1**
Benefits paid	**(21.9)**	(22.5)	**(33.8)**
Actuarial loss attributable to change in financial assumptions	**18.8**	21.8	**39.4**
Actuarial value of liabilities at end of the period	**879.7**	846.6	**863.1**

10. Related Party Transactions

During the six months ended 30 June 2013, the Group contributed £9.3m (6 months to 30 September 2012 - £9.3m) to the Northern Ireland Electricity Pension Scheme.

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

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

	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 period end £m	Amounts owed to related party at period end £m
6 months to 30 June 2013						
ESBNI	**-**	**-**	**-**	**-**	**-**	**-**
Other ESB subsidiaries	**-**	**10.6**	**(32.1)**	**-**	**1.4**	**13.5**
	-	**10.6**	**(32.1)**	**-**	**1.4**	**13.5**
6 months to 30 September 2012						
ESBNI	-	-	-	0.8	-	-
Other ESB subsidiaries	-	10.1	(30.1)	-	2.2	8.0
	-	10.1	(30.1)	0.8	2.2	8.0
9 months to 31 December 2012						
ESBNI	-	-	-	1.4	-	-
Other ESB subsidiaries	-	14.8	(46.7)	0.8	3.2	9.8
	-	**14.8**	**(46.7)**	**2.2**	**3.2**	**9.8**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm, that to the best of their knowledge:

(i) the interim accounts have been prepared in accordance with IAS 34 as adopted by the European Union and the Disclosure and Transparency Rules of the Financial Services Authority; and

(ii) the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules.

By order of the Board

Joe O'Mahony
Managing Director

29 August 2013