

ANNUAL REPORT & ACCOUNTS

12 months ended 31 December 2015



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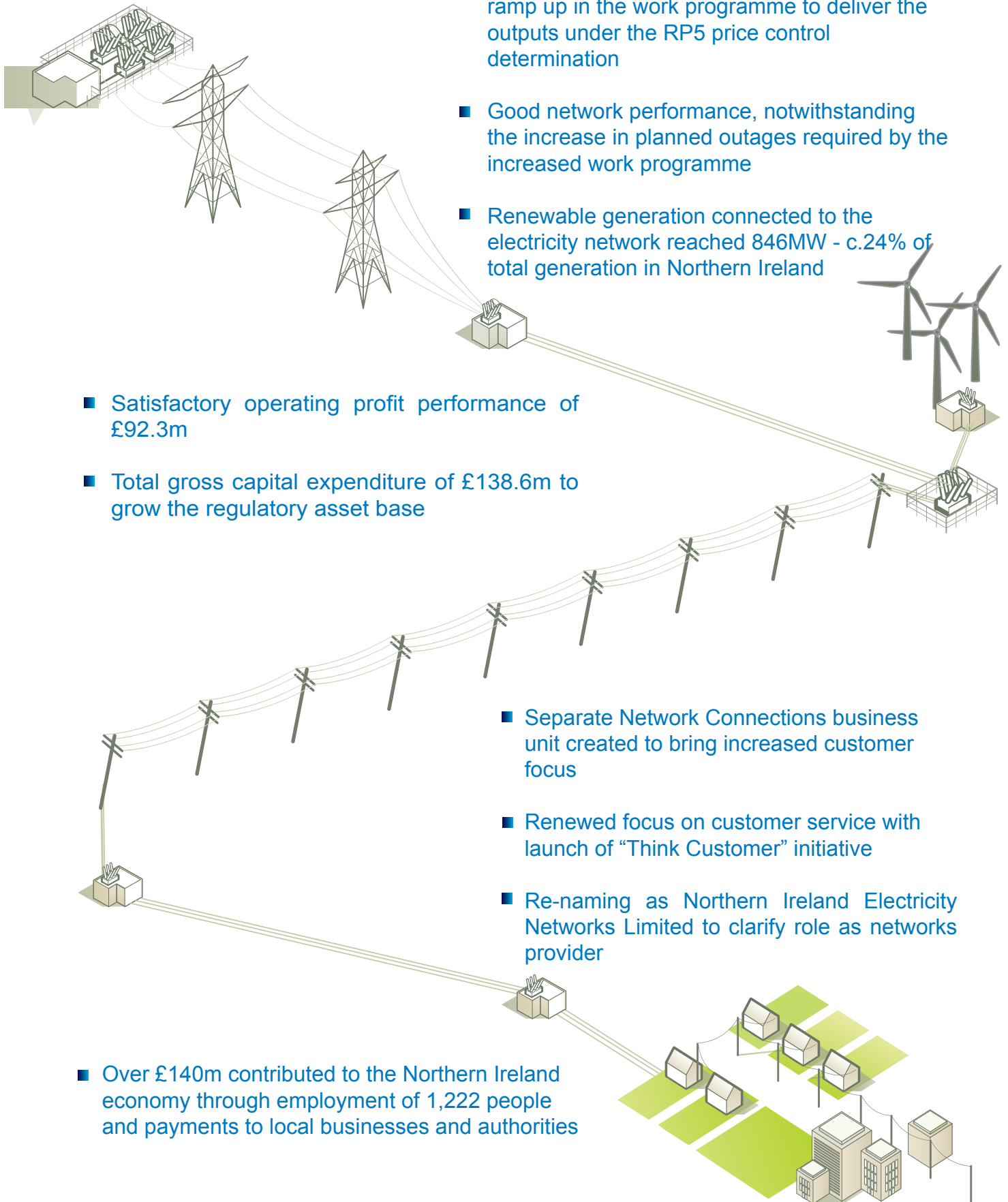
2015 AT A GLANCE

- Continued strong health and safety management with no lost time incidents
- 20% increase in network investment reflecting ramp up in the work programme to deliver the outputs under the RP5 price control determination
- Good network performance, notwithstanding the increase in planned outages required by the increased work programme
- Renewable generation connected to the electricity network reached 846MW - c.24% of total generation in Northern Ireland

- Satisfactory operating profit performance of £92.3m
- Total gross capital expenditure of £138.6m to grow the regulatory asset base

- Separate Network Connections business unit created to bring increased customer focus
- Renewed focus on customer service with launch of “Think Customer” initiative
- Re-naming as Northern Ireland Electricity Networks Limited to clarify role as networks provider

- Over £140m contributed to the Northern Ireland economy through employment of 1,222 people and payments to local businesses and authorities



GROUP STRATEGIC REPORT

The directors present their annual report and accounts for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (the Group) for the year ended 31 December 2015. The Company was renamed on 18 September 2015 in order to clarify for customers the Company's role as the electricity networks provider in Northern Ireland (previously named Northern Ireland Electricity Limited).

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

The Group accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applied in accordance with the provisions of the Companies Act 2006. During the year the Company transitioned from EU-adopted IFRS to FRS 101 – Reduced Disclosure Framework and has taken advantage of the disclosure exemptions allowed under this standard.

OWNERSHIP

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

BUSINESS MODEL

PRINCIPAL ACTIVITIES AND REGULATION

The Group's principal activities are:

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

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

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

demand and generation connections is received from the customer in accordance with the Statement of Connection Charges, which is revised each year.

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

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

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

The transmission and distribution networks comprise a number of interconnected networks of overhead lines and underground cables which are used for the transfer of electricity to around 860,000 consumers via a number of substations. During the year an estimated 7.8TWh of electricity was transmitted and distributed to consumers in Northern Ireland. There are 2,200km of transmission lines, 47,000km of distribution lines and almost 300 major substations, including 40 serving large wind farm sites. NIE Networks' transmission system is connected to that of the RoI through a 275kV interconnector and to that in Scotland via

the Moyle Interconnector. There are also two standby 110kV connections to the RoI.

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

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

The Company also provides connections to the network for customers requiring a new electricity supply (demand connections) and those seeking to generate electricity and may need to export it to the network (generation connections). NIE Networks is currently responsible for construction of all connections to the electricity network, however the Utility Regulator has announced the introduction of contestability for all new network connections which will bring competition from independent connection providers. NIE Networks is engaging with the Utility Regulator to enable the first phase of opening the market to competition by the end of May 2016, followed by full market opening by the end of 2017.

NIE Networks manages the transmission and distribution networks on an integrated basis. To the end of December 2015 the employees in NIE Networks' subsidiary company, NIE Networks Services Limited, provided construction, maintenance, metering and other services to NIE Networks and were fully integrated into NIE Networks' organisational structure. In order to simplify the Group structure, with effect from 1 January 2016, the responsibility for the functions and employees of NIE Networks Services Limited was transferred to NIE Networks and NIE Networks Services Limited ceased operational activity.

PRICE CONTROLS

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

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

The price control includes up-front allowances of £622m and £341m (December 2015 price base) in respect of capital and operating expenditures respectively with the up-front allowances being adjusted to reflect 50% of the difference between NIE Networks' actual costs and the allowances. This is equivalent to the capital and operating cost allowances being calculated as the average of the up-front allowances and NIE Networks' actual costs. The RP5 rate of return is 4.1% plus inflation (weighted average cost of capital based on pre tax cost of debt and post tax cost of equity).

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

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

The CMA adopted Ofgem's classification of costs into "direct" costs and "indirect" costs for the purpose of setting the capital and operating expenditure allowances. New arrangements for

annual reporting of costs will follow this classification based on Ofgem's Regulatory Instructions and Guidance (RIGs). NIE Networks expects this will be of benefit by facilitating future benchmarking of its costs versus the GB network operators.

In respect of pensions, the price control adopts the Ofgem Pension RIGs methodology whereby the deficit is split into historical and incremental elements with the cut-off date for the historic deficit being 31 March 2012. The price control allowance for the historic deficit matches the deficit repayment profile agreed with the pension scheme trustees, subject to an annual disallowance of £4.7m (December 2015 price base) in respect of costs associated with early retirement schemes incurred by the Company between 1997 and 2003. The price control makes no allowance for any deficit costs which might arise in respect of pensionable service post 31 March 2012. It is expected that these costs, in conjunction with on-going service costs, will be subject to benchmarking with the GB network operators in future price controls.

In December 2015 the Utility Regulator published its overall approach in developing its RP6 price control determination. The RP6 price control is due to commence on 1 October 2017 and will run for a six and a half year period to 31 March 2024. The Company is in the process of developing its business plan for RP6, which is due to be submitted to the Utility Regulator in June 2016.

ENERGY POLICY

In 2010, under the Strategic Energy Framework (SEF), the Northern Ireland Assembly set a target of achieving 40% of electricity consumption from renewable sources by 2020, with an interim target of 20% by 2015. By the end of 2015 renewable generation connected represented approximately 24% of total electricity generation in Northern Ireland.

Government support through the Northern Ireland Renewable Obligation (NIRO) scheme was a key enabler of this achievement and a mid-term review of the SEF is underway.

STRATEGY

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

NIE Networks' strategic objectives are:

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

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

FINANCIAL REVIEW

FINANCIAL KEY PERFORMANCE INDICATORS (KPIs)

Operating Profit

The Group's operating profit as reported in the accounts was £92.3m for the year to 31 December 2015, a reduction of £10.1m on the previous year. Group revenue of £236.1m reduced by £7.7m on the previous year primarily due to the phasing of RP5 tariffs. Group operating costs of £143.8m increased by £2.4m on the previous year primarily due to increased depreciation charges in line with the increasing asset base.

FFO Interest Cover

The ratio of FFO (funds from operations) to interest paid is a key internal measure of the Group's financial health. FFO interest cover was 3.1 times for the year (2014 – 3.3 times). Notwithstanding the reduction from the previous year, the ratio is in line with the target level and confirms the Group's continuing financial strength.

Net Assets

The Group's net assets of £310.6m increased by £41.4m on the previous year largely reflecting profit after tax of £50.2m and remeasurement gains (net of tax) of £7.6m on net pension scheme liabilities, offset by a dividend paid to the shareholder during the year of £16.5m.

Cash Flow

Cash and cash equivalents decreased by £6.0m during the year due to net cash flows from operating activities of £148.0m offset by investing activity out flows of £137.5m and a dividend paid of £16.5m.

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 - £174.4m and £398.3m 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 £130m.

The Company's policy in relation to equity is to finance equity dividends from accumulated

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

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

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

Interest Rate Risk

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

Since December 2010, NIE Networks has held a £550m portfolio of RPI linked interest rate swaps. Following a restructuring in 2014 the swaps have a mandatory break period in 2022. The Company also holds a portfolio of RPI interest rate swaps with identical matching terms which hedge the Company's exposure in respect of these swaps. Further details of the swaps, including fair values, are disclosed in note 16 to the accounts.

Credit Risk

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

| YEAR TO 31 DECEMBER | 2015 £m | 2014 £m |
|---|------------|------------|
| Cash and cash equivalents | 17.7 | 23.7 |
| Trade and other receivables (excluding prepayments and accrued income) | 56.9 | 45.7 |
| Other financial assets – current and non-current | 465.4 | 499.4 |
| | 540.0 | 568.8 |

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

KPIs

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

| KPIs - YEAR TO 31 DECEMBER | 2015 | 2014 |
|--|-------|-------|
| SAFETY: | | |
| Lost time incidents (number of) | 0 | 1 |
| NETWORK PERFORMANCE: | | |
| Customer Minutes Lost (CML): | | |
| Planned CML (minutes) | 66 | 50 |
| Fault CML (minutes) | 65 | 56 |
| CUSTOMER SERVICE: | | |
| Overall standards – defaults (number of) | None | None |
| Guaranteed standards – defaults (number of) | None | None |
| Stage 2 complaints to the Consumer Council (number of) | 4 | 6 |
| CONNECTIONS: | | |
| Applications for customer demand connections (number of) | 9,700 | 9,800 |
| Renewable generation connected (MW): | | |
| Small scale (<5MW) | 66 | 59 |
| Large scale (> 5MW) | 30 | 98 |
| SUSTAINABILITY: | | |
| Waste recycling rate (%) | 97% | 98% |

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 Networks' business operations. The aim is to provide a zero harm working environment where risks to health and safety are assessed and controlled. This is achieved by the promotion of a positive health and safety culture and adherence to legislation and recognised safety standards. The approach to safety is based on the following principles: Leadership; Competence; Compliance and Engagement.

The health and safety management system is accredited to OHSAS 18001 standard and based on best practice guidance from the Health and Safety Executive for Northern Ireland (HSENI) and the Institute of Directors. NIE Networks

continues to engage with 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 Networks sound record continued with no lost time incidents recorded during the year (2014 – one incident).

During 2015 the Safety Team continued to influence and support all business units with particular focus on the following areas of work:

- the reporting, analysis and investigation of “near miss” incidents is key to improving safety performance. The quality of “near miss” incidents reported improved with approximately 59% of incidents classed as “good catch”

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, most staff participated in a special Group wide safety brief focussing on choices and behaviours at work and operational staff participated in a safety “stand-down day” to re-focus staff on safety;
- further employees attained certificates 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 3,360 inspections being completed. In line with the Leadership and Engagement principles these were completed by a range of staff including the Managing Director, directors, business unit managers and front-line managers. The focus of the inspections was coaching and encouraging good site behaviours while ensuring compliance was achieved;
- continued 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 staff to coincide with “European Health & Safety Week”.

Working at a height is a hazard that electricity networks employees encounter. During the year an innovative “Fall Arrest System” was developed by a team of employees. The system has two curved brackets which attach two people

safely when working on top of a transformer, reducing the risk of an employee being seriously injured from a fall.

NETWORK INVESTMENT

The network investment plan to deliver the physical outputs specified in the RP5 determination involved a ramp up in the level of capital investment 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 and by the end of 2015 the work programme was on target to deliver all the physical outputs required under the investment plan by September 2017.

During RP5 there will be additional investment in large transmission projects which are subject to individual approval by the Utility Regulator. During the year approval was granted for the construction of a major new 110kV line from Omagh to Tamnamore to supply a new Cluster substation at Gort. Construction of this project commenced in late 2015 and is due to complete during 2017.

During the year NIE Networks invested a total of £88.3m (2014 - £74.3m) (net of customer contributions) in transmission and distribution networks, representing an increase of almost 20% on the prior year due to ramp up in the investment plan. 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 1,870km of transmission and distribution overhead lines were refurbished under an on-going programme. Tree cutting is an essential on-going programme to maintain the networks’ resilience to storm conditions and during the year tree cutting was carried out along 7,290km of overhead lines by both in-house tree cutting teams and specialist contractors.

Key projects progressed during the year included:

- refurbishment of three 275/110kV substations (at Kells, Castlereagh and Tandragee) under the transmission asset replacement programme with significant progress made. The projects, with a total investment of approximately £19m, are due to complete in 2017;

- 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 completed and transmission work progressed well in 2015. This £5.6m project should complete in mid 2016;
- major refurbishment commenced at two 110/33kV substations; and
- on the distribution network, work continued on substation refurbishment and replacement, with over £20m invested, and overhead line refurbishment programmes, with over £18m invested.

The total network investment also included £24.6m (£4.8m net of developers' contributions) to facilitate connection of additional renewable generation, consistent with NIE Networks "Medium Term Plan". Projects advanced during 2015 as part of the "Medium Term Plan" included:

- completion of 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, at a total investment of £23.0m; and
- construction of three 110/33kV wind farm cluster substations (at Gort in Co. Fermanagh; Tremoge in Co. Tyrone and Rasharkin in Co. Antrim) to enable the connection of 14 large scale wind farms with a combined capacity in excess of 200MW. The projects, which together represent an investment of £28.0m are on track to complete in late 2016.

NETWORK PERFORMANCE AND CUSTOMER SERVICE

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

Against the backdrop of the ramp up in the network investment programme during 2015, NIE Networks continued to manage outages

required for essential maintenance and development in order to minimise the occasions and length of time that customers are off supply. Performance of the distribution network is measured in its availability – the number of minutes lost per customer (CML). CML due to planned outages is the average number of minutes lost per customer for the period through pre arranged shutdowns for maintenance and construction: the number of planned CML for 2015 was 66 minutes, representing an increase on the previous year (2014 - 50 minutes) due to the increased investment programme.

The average number of CML due to faults on the distribution network in 2015 was 65 minutes, an increase on the previous year (2014 - 56 minutes) reflecting the impact of the damage to the network during storms in January and December.

The Utility Regulator sets overall and guaranteed standards of performance. The majority apply to services provided, for example the timely restoration of customers' supplies following an interruption and prescribed times for responding to customers' voltage complaints. All the overall standards were achieved and there were no defaults against guaranteed standards for customer service activities delivered during 2015 (2014 - none). During the year 89% of electricity supplies were restored within three hours, within the regulatory standard of 87% (2014 - 92%).

NIE Networks continues to test and confirm the robustness of its emergency response capabilities during severe weather events in order to restore effectively supply to all customers. The significant commitment from all staff helps to ensure that NIE Networks manages effectively 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 four occasions where severe weather caused damage to the network with several thousand customers affected and in each case all customers were reconnected within 24 hours.

The focus on reducing the number of avoidable complaints continued and the number of complaints received from customers was slightly lower than the previous year. The continued strong focus on customer service limits the number of instances when customers are dissatisfied to the extent that they refer a complaint to the Consumer Council for Northern

Ireland (CCNI) for review. Only four complaints were taken up by the CCNI on behalf of customers (Stage 2 Complaints to the CCNI) during the year (2014 – six complaints). Individual complaints received are analysed and assessed, based on the individual specific circumstances, as to whether or not the complaint was avoidable.

2015 saw a significant increase in the level of customer engagement. Working with the Utility Regulator, DETI and the CCNI, a large number of business and domestic customers and their representative bodies participated in forums and interviews and provided feedback to assist in developing plans for the RP6 price control. Feedback on current service levels and improvements that customers wish to see over the next few years, not only in relation to areas of investment, but also easier communications with NIE Networks staff, quicker connection processes and more online facilities is being taken into account in the Company's plans. Across NIE Networks there has been a focus on reviewing customer service activities in order to improve delivery in all areas. These "Think Customer" improvements will progress throughout 2016.

Customers increasingly wish to use the NIE Networks website and social media to engage with the business. During the year new on-line services continued to be rolled out, including a video advising customers what to do in the event of a power cut. Customers can submit meter readings and report power cuts online. Customers can also communicate with the Company via Twitter @NIElectricity.

The new company name launched in September 2015 should help clarify NIE Networks role as the electricity networks provider and when customers should contact the Company and when they should contact the supply companies.

CONNECTIONS

During the year the organisation was re-aligned and the responsibility for all types of network connections were brought together in one business unit. The focus has been on enhancing customer service and shortening delivery timescales. In the light of the significant increase in applications for generation connections, additional resources were put in place to deliver this work programme.

The majority of connections work undertaken relates to demand or load connections, covering: the provision of new connections to homes, businesses, farms and housing developments; altering existing connections including replacing electrical equipment, installing new earthing or diverting equipment; and increasing or decreasing the load of electrical equipment to cater for new requirements. The number of applications for these types of "demand" connections remained steady at 9,700 during the year (2014 – 9,800 applications).

NIE Networks is also responsible for the connection of generators to the distribution network. Generation connections fall into three broad categories – large scale, small scale and micro:

- Large scale generation (typically 5 - 40MW) mainly takes the form of wind farms and is connected to the transmission and distribution networks;
- Small scale generation (typically 20 - 500kW) takes the form of single wind turbines, anaerobic digesters and small solar installations and is connected to the distribution network; and
- Micro-generation (4 - 12kW) is typically photovoltaic (PV) panels on domestic rooftops and normally connects directly to customer premises.

The number of applications for the connection of micro-generation increased again in 2015, by 50% from the previous year with approximately 9,500 applications received.

During the year there was a significant increase in the number of large scale generation connection applications received, with 61 applications, and a further 750 applications for small scale generation connections, in line with the previous year. Some 350 of these large and small scale generation connection applications, totalling circa 870MW, were received following a change in policy in August 2015 as a result of Utility Regulator's determination that planning permission should not be a pre-requisite for a renewables connection application. Given the impact of this influx of applications, and the high levels of generation already connected,

extensive analysis of the transmission system is required before offers can be made.

The Utility Regulator has agreed an initial extension of the 90 day licence standard to issue connection offers, to May 2016, to allow SONI and NIE Networks to work through the necessary assessments. In addition, a consultation process is underway with the renewable generation industry to agree the most efficient way to proceed.

Notwithstanding the high level of applications, during the year around 300 small scale renewable generation projects and several thousand micro-generation projects, together totalling 66MW, were connected to the network. In addition, two large scale renewable generation projects, the 17.6MW biomass plant, Lisahally Power Station and the 12MW Monnaboy Wind Farm, were connected to the network in Co Londonderry.

With this additional 96MW connected, by the end of 2015 there was a total of 846MW of renewable generation connected, representing around 24% of total generation in Northern Ireland. The installed capacity of renewable electricity generation connected in Northern Ireland per customer is ranked amongst the highest of the UK DNOs. Importantly, a further circa 720MW is committed to connect to the network bringing the total of connected and committed to in excess of 1500MW.

NIE Networks continues to seek innovative ways to connect generators and has been exploring an alternative connection arrangement whereby the output of a generator is controlled to avoid local network capacity limits being reached. As part of this initiative, NIE Networks is carrying out research to develop a “managed connection” which, if successful, will allow access to remaining capacity of the network thus facilitating more generation to connect, albeit with some level of restriction. NIE Networks plans to have finalised proposals on a workable solution for “managed connections” by mid 2016.

In addition, on large scale generation, NIE Networks has worked closely with the industry to find ways to expedite the delivery of cluster substations in order to facilitate further renewable generation connections and further develop charging arrangements for cluster substations. NIE Networks has continued to

work closely with all key stakeholders including the Utility Regulator, DETI, SONI, Ulster Farmers’ Union and NI Renewables Industry Group to develop the best approach.

Currently NIE Networks is the only party in Northern Ireland that can design and build connections to the distribution system. NIE Networks has accelerated a major programme of work to support the Utility Regulator’s priority to open up this market to competition for all types of new connections, thereby creating a “contestable” market. The market will be opened in a phased approach, with Phase 1 including only the largest connections, greater than 5MW, to be delivered from the end of May 2016 and Phase 2, for all other connections, to be delivered by the end of 2017. The Utility Regulator has defined which elements of the connections process will be contestable and which will remain exclusively the responsibility of NIE Networks. Further consultation will continue to be required to establish the rules and processes to govern a fully contestable market that will operate successfully for all parties.

MARKET OPERATIONS

NIE Networks continued to achieve full compliance with its regulatory obligations in respect of customer appointments for metering work. Each year approximately three million visits to customer properties are made to take meter readings and in 2015 NIE Networks continued to meet its regulatory standard to obtain actual meter readings from 99.5% of all customers once per year, therefore ensuring that electricity consumption is calculated accurately and minimising the number of estimated bills issued by electricity suppliers. The access rate achieved to enable meter reading remained high at 82%.

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

A major programme to replace meters that have reached the end of their life cycle commenced during 2015 and will involve replacement of 25% of customers’ meters by 2017.

SUSTAINABILITY

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

During 2015 improvements were made in each of these areas. There has been continued focus on waste management targets with the recycling rate for all hazardous and non-hazardous waste (excluding excavation from roads and footpaths, civil projects excavation and asbestos removal) remaining high at 97.4% (2014 – 97.8%).

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

In ARENA's 2015 Northern Ireland Environmental Benchmarking Survey NIE Networks achieved a Gold Award performing well in excess of the utility sector average and achieving the most improvement amongst all participants.

PEOPLE

NIE Networks resourcing strategy is to use highly skilled insourced labour for core strategic activities working in partnership with bought in services as appropriate. This ensures that knowledge is retained, allows greater flexibility to redeploy employees where needed and builds a strong culture of employees motivated to deliver business objectives. The organisation was restructured during 2015 to align functions more closely to current and future challenges faced and across the organisation management structures have continued to be streamlined.

These changes have created development opportunities for all levels of employees and external recruitment opportunities. The number of employees at the end of 2015 was 1,222 (2014 – 1,184).

Training and Development

NIE Networks seeks to attract, develop and retain highly skilled people through its apprenticeship, graduate, apprentice-to-graduate, scholarship and sponsorship programmes. The Company's Technical Training Centre, which includes Apprentice Training, continued to maintain its extremely high standards and again achieved an "Outstanding" classification in its annual inspection by the Education and Training Inspectorate. NIE Networks is committed to a working environment which enables employees to realise their maximum potential and to be appropriately challenged and fully engaged in the business, with opportunities for skills enhancement and personal development. Human Resources policies are aligned with key business drivers including: performance and productivity improvement; clearly defined values and behaviours; a robust performance management process; and a strong commitment to employee development.

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. Senior and middle managers participated in a 360 degree feedback process which will be extended to front line managers in early 2016.

During the year NIE Networks became the first Northern Ireland company to be accredited by the Institution of Engineering and Technology (IET) for its professional development scheme. The Company is pro-actively encouraging and supporting more employees to become IET members and Chartered Engineers.

Equality and Diversity

NIE Networks 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. NIE Networks is committed to providing equality of opportunity for all employees and job applicants with on-going monitoring to

ensure that equality of opportunity is provided in all employment practices. The Company uses affirmative action to actively seek female applications in male dominated job roles. During the year a policy on shared parental leave and statutory shared parental pay was introduced.

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

Sickness Absence

The 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 all employees. A Health and Wellbeing Forum was established during the year to focus on providing additional guidance and support to enable employees to proactively manage their own health and wellbeing. Sickness absence during the year improved further to 2.63% from 2.88% the previous year, with serious long-term illnesses representing a significant proportion.

Employee Engagement

NIE Networks 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 Networks' objectives, plans, financial and operational performance and their effect on them as employees through the monthly newsletter, monthly team briefings and via a 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.

2015 saw further developments in employment engagement overseen by the Employment Engagement Board. The work of the large number of local employee led engagement groups continued, with additional working groups established to address issues and develop proposals on numerous wide ranging

matters. In addition a new "Employee Voice" forum was established to facilitate on-site engagement with industrial employees directly on issues most relevant to them. A new Innovation Forum has been successful in encouraging employees to bring forward new ideas to improve processes and working practices. The Health and Wellbeing Forum comprises members from across the organisation and seeks to engage with all employees on many initiatives to encourage improvements in employees' health and wellbeing. Other Initiatives implemented through the year included the re-launch of the Cycle to Work scheme, introduction of additional non cash benefits and improvements in facilities.

Employee relations are positive and constructive and formal meetings are held regularly between senior managers and representatives of employees and their unions to discuss more complex employee issues.

The Company is accredited by the UK Commission for Employment and Skills with the Investors in People (IIP) "Gold" standard, which tests on-going investment in people to improve business performance.

LOOKING FORWARD

Key priorities for 2016:

- ensuring the health and safety of employees, contractors and the general public will continue to be the top priority: achieving a zero-harm work environment through implementation of injury and accident-free initiatives;
- delivering the network investment programme under RP5, to replace worn assets, within regulatory allowances;
- delivering the generation connections pipeline;
- delivering improved customer service through the "Think Customer" programme;
- submitting a well justified business plan for RP6 to the Utility Regulator in June 2016;
- opening the connections market to competition, with the first phase to be delivered at the end of May 2016;
- continued investment in employees to enhance NIE Networks' capability; and
- engaging effectively with key stakeholders.

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

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

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

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

The Risk Management Policy is reviewed annually by the Board and sets out the high level principles

and policy requirements that form the basis of risk management within NIE Networks and also outlines the risk management roles and responsibilities and the main organisational and procedural arrangements that apply to support the effective management of risk. The Risk Management Committee (RMC) oversees and directs risk management in accordance with the approved policy. The RMC comprises a number of Executive Committee members and senior managers and is chaired by the Finance Director. The RMC considers risk assessments carried out by each business unit and the risk status and mitigation strategies are reviewed biannually. The RMC reports on its activities to the Executive Committee, Audit & Risk Committee and the Board during the year.

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

PRINCIPAL RISKS & UNCERTAINTIES

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

| RISK | RISK DESCRIPTION | MITIGATING STRATEGIES |
|---|--|--|
| HEALTH & SAFETY RISKS | | |
| Failure to manage health and safety obligations | Exposure of employees, contractors and the general public to risk of injury and the associated potential liability and/or loss of reputation for NIE Networks. | <p>A comprehensive annual Health, Safety Business Plan approved by the NIE Networks 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> |

| RISK | RISK DESCRIPTION | MITIGATING STRATEGIES |
|-------------------------|---|--|
| REGULATORY RISKS | | |
| Price controls | Inadequate allowances from price control reviews. | The Company manages regulatory risks through the Regulatory Affairs team and relevant senior managers across the organisation supported by specialist external advice. Regulatory submissions are evidence based. |
| Licence compliance | Fail to comply with regulatory licence obligations. | The Compliance Manager within the Regulatory Affairs team co-ordinates and monitors compliance with all regulatory licence obligations and reporting to the Utility Regulator on financial and other regulatory matters. |
| FINANCIAL RISKS | | |
| Funding and liquidity | <p>Inability to secure adequate funding at appropriate cost for planned investments and maintaining NIE Networks' credit metrics within rating targets.</p> <p>Exposure to financial counterparty risk.</p> | <p>NIE Networks employs a continuous forecasting and monitoring process to ensure adequate funding is secured.</p> <p>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> <p>NIE Networks conducts business only with Board approved counterparties which meet the criteria outlined in the Company's treasury policy.</p> <p>The Company's treasury policy and procedures are reviewed, revised and approved by the Board as appropriate.</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 2014.</p> |
| MARKET RISKS | | |
| Customer service | Failure to meet standards for customer service resulting in damage to reputation. | Stretching customer service standards are approved by the NIE Networks Board. Performance against these standards is monitored and reported on a monthly basis. |

| RISK | RISK DESCRIPTION | MITIGATING STRATEGIES |
|------------------------------------|--|---|
| MARKET RISKS (continued) | | |
| 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 Networks' regulatory obligations.</p> <p>Additional resources put in place to deliver the work programme.</p> <p>The Company continues to liaise with the Utility Regulator, relevant government departments and industry representatives to facilitate a co-ordinated and structured approach to addressing, and communicating on, renewable connections.</p> |
| OPERATIONAL RISKS | | |
| 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 Networks' 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 Networks' 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 Networks could sustain a greater than necessary financial impact through inability to carry on its operations, either for a short or prolonged period. | <p>NIE Networks 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> |

| RISK | RISK DESCRIPTION | MITIGATING STRATEGIES |
|---|--|--|
| OPERATIONAL RISKS (continued) | | |
| 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 Networks' IT Security Forum ensures the maintenance of adequate IT security policies. Robust ICT standards, policies and procedures for system access are in place and communicated across the organisation.</p> <p>NIE Networks' Data Protection Forum implements and monitors compliance with data protection policy and procedures.</p> |
| PEOPLE RISKS | | |
| 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 Networks' strategy is to attract, recruit and develop highly skilled people through graduate, apprenticeship, trainee and sponsorship programmes to ensure that appropriate resources are in place to meet the Company's regulatory obligations.</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 Networks Limited
Registered Office
120 Malone Road
Belfast BT9 5HT

Registered Number: NI 26041

Date: 7 March 2016

CORPORATE SOCIAL RESPONSIBILITY

NIE Networks provides a vital service to every home, farm and business in Northern Ireland as part of its day to day work in delivering electricity supplies. Through its mainstream business activities and various specific initiatives the Company seeks to make a positive impact on the communities in which it operates. Details of health and safety management, employment policies and initiatives and sustainability performance during 2015 can be found in the Operational Review on pages 8 to 14. Initiatives undertaken during the year to support NIE Networks' principal CSR themes and priorities are described below.

During the year NIE Networks employees attended around 115 events to promote safety around electricity and provide skills, careers advice and guidance.

SAFETY

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

During 2015, over 19,000 farmers and contractors received safety advice from the Company at farm safety events and through the issue of "Farm Risk Assessment" and other safety material through the Ulster Farmers Union. Safety presentations were made to contractors in the transport industry and to all other utilities in Northern Ireland. Fishing and sailing clubs continued to receive safety advice.

NIE Networks' "KIDSAFE" programme continued with over 21,000 schoolchildren participating in the interactive programme to educate and raise awareness of the dangers of the electricity network in an effort to reduce incidences of vandalism and electricity-related injuries. NIE Networks has been involved in the development of a dedicated safety training facility for children and young people, known as RADAR (Risk Avoidance and Danger Awareness Resource). Within the safety village, NIE Networks has built an overhead line and a ground-mounted substation complete with special effects to simulate the sound and light associated with accidental contact with electrical apparatus. 10,000 children and young people are expected to visit RADAR during 2016.

The Company continued to work with the Police Service of Northern Ireland (PSNI), the network operators in GB and other utilities in Northern Ireland to address the dangerous issue of metal theft. Thieves targeting electrical installations endanger themselves, employees and the wider public. A number of local scrap metal dealers have adopted the voluntary Code of Conduct introduced in 2013 and, in late 2015, NIE Networks provided evidence to the Northern Ireland Assembly's Environment Committee in support of a Scrap Metal Dealers Bill to control scrap metal trading.

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

CUSTOMER CARE

NIE Networks aims to deliver electricity safely and reliably to customers and to respond quickly and efficiently should a power cut occur unexpectedly. A series of presentations were

made to key customer and government bodies and elected representatives on how NIE Networks repairs network faults.

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

NIE Networks' critical care information service is a priority service for 5,500 customers who rely on electricity for their healthcare needs with customers or their carers receiving prioritised information on faults or planned work on the network.

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

WORK EXPERIENCE & EDUCATIONAL OUTREACH

NIE Networks is conscious of the on-going need to encourage and develop tomorrow's workforce. By its nature power engineering is highly skilled and specialist and requires many years of training. With fewer students choosing science and technology subjects, coupled with the need to invest heavily in network renewal and investment projects, the electricity industry faces a significant skills shortage in the future. NIE Networks therefore continues to engage proactively with students to consider engineering as a career, through a wide range of educational outreach initiatives including:

- 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 five further 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 Networks has 26 scholarship students, mostly at Queen's University Belfast;

- work experience for GCSE and A-Level students and four week research and development experience for two A-Level students;
- sponsoring the First Lego League, a global robotics programme, and the Young Innovators award for Innovation with Electricity; and
- mentoring services to school children participating in the IET "SMART Energy" project and "Team R&D".

Between 2013 and 2015, in conjunction with Queen's University Belfast, NIE Networks has helped students undertake the conversion of an electric DeLorean for the launch on 23 October 2015, the day the car from the classic "Back to the Future" films was due to arrive in the future. Now that the car has been built, it will be used as an outreach tool with clubs and schools to inspire potential engineers.

COMMUNITY INITIATIVES

NIE Networks continues to be a member of Business in the Community (BiTC). Throughout 2015 employees served on the boards of 19 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 Networks is part of the BiTC's "PLACE" Leadership Team, which seeks opportunities to promote community regeneration through employee volunteering.

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

CHARITABLE GIVING & SPONSORSHIP

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

NIE Networks continued the partnership with Conservation Volunteers to plant 3,000 native trees in rural communities across Northern Ireland. The Company became a “Silver” member of the Ulster Wildlife Trust and will be working with the trust on its sustainable commitment.

The Company is sponsoring the Energy Networks Association’s Safety, Health & Environment Conference to be held in Belfast in May 2016. This will be the first time the respected UK wide conference will be hosted in Northern Ireland for almost 20 years.

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

BOARD OF DIRECTORS



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

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

ROTHA JOHNSTON CBE was appointed as an independent non-executive director in March 2011. She is Chairperson of Northern Ireland Screen, the Government-backed lead agency in Northern Ireland for the film, television and digital content industry. 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 & Risk Committee.

RONNIE MERCER CBE was appointed as an independent non-executive director in March 2011. He is a member of the University of Glasgow Court. He was Chairman of Scottish Water from 2006 to 2015 and in 2013 was awarded the CBE for his services to Scottish Water. He has extensive relevant experience and knowledge of the energy sector as he formerly held senior executive positions at Scottish Power including Group Director Infrastructure, Executive Vice President Operations of the PacifiCorp subsidiary, Generation Director and Managing Director of Southern Water.

NICHOLAS TARRANT, Managing Director, was appointed to the Board on 1 December 2014. He joined ESB in 1993 where he has held a number of senior manage-

ment positions including Generation Manager with responsibility for ESB's 4,800MW generation and lead manager on ESB's €200m Novus Modus Clean Tech Fund. He is a chartered engineer at the Institute of Engineers of Ireland and holds an MSc (Management) from Trinity College, Dublin.

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

DIRECTORS' REPORT

The directors of Northern Ireland Electricity Networks Limited (NIE Networks or the Company) present their report. The Company was renamed on 18 September 2015 in order to clarify for customers the Company's role as the electricity networks provider in Northern Ireland (previously named Northern Ireland Electricity Limited).

Nicholas Tarrant, Managing Director and Peter Ewing, Deputy Managing Director and Director of Regulation and Market Operations are the executive directors. Further details on Board members are provided on page 22. The Board meets at least quarterly and also meets on other occasions as necessary: it met eight times during the year with all members attending each meeting.

RESULTS AND DIVIDENDS

The results for the year ended 31 December 2015 show a profit after tax of £50.2m (2014 - £48.2m). During the year the Company paid a dividend of £16.5m (2014 - £14.0m). The business and financial review, together with future business developments, are provided in the Group Strategic Report.

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.

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.

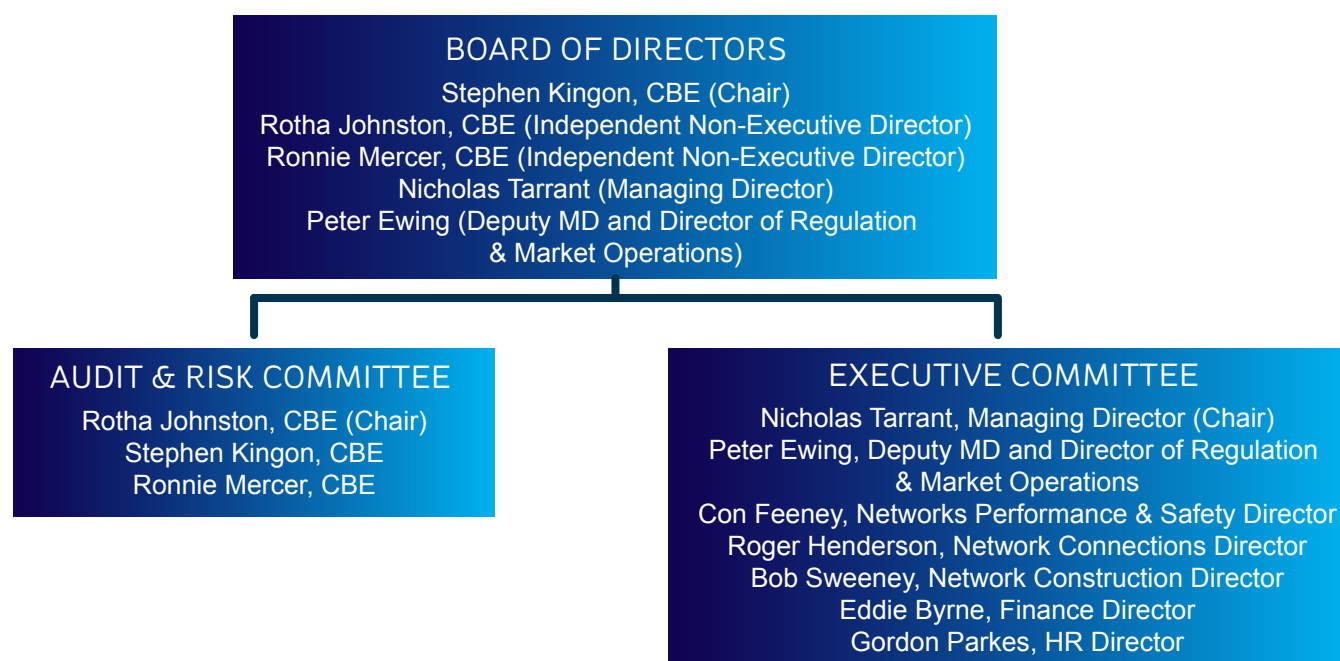
During the year the Board conducted a review of its performance, and that of the Audit & Risk Committee, in order to identify ways to improve effectiveness.

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

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

NIE Networks' Board comprises three independent non-executive directors and two executive directors. Stephen Kingon CBE chairs the Board. Rotha Johnston CBE and Ronnie Mercer CBE are the Board's other independent non-executive directors.

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 can be found on NIE Networks' website at www.nienetworks.co.uk/About-us.

The Audit & Risk Committee comprises the three independent non-executive directors and is chaired by Rotha Johnston. The Board is satisfied that at least one member of the Committee 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:

- the Risk Management Policy and framework and the Risk Management Committee's work programme;
- key risks faced, including "High Impact Low Probability" risks, and mitigating actions being taken and an updated assessment of risk appetite for all key business activities;
- the internal audit plan for 2015, with regular updates on internal audit reports and progress on the implementation of recommendations;
- an updated three year internal audit programme for 2015 to 2017 and the internal audit plan for 2016;

- the enhanced integrated internal control assurance framework modelled on "three lines of defence";
- the effectiveness of internal controls and the risk management system;
- terms of engagement of internal and external auditors;
- annual, interim and regulatory accounts for NIE Networks and annual accounts for NIE Finance PLC and NIE Networks Services Limited, considering the appropriateness of accounting policies, whether the accounts give a true and fair view and the appropriateness of the going concern assumption and reviewing the significant issues and judgements;
- reports from the external auditor on the audit of annual and regulatory accounts and the review of interim accounts;
- a report on the independence of the external auditors;
- the adoption of FRS 101 'Reduced Disclosure Framework' in the preparation of the company accounts;
- various regulatory submissions; and
- its own effectiveness as part of the Board'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, EY, 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 one occasion 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;

- governance team responsible for key controls testing;
- key managers formally evaluating, and the internal auditors testing, the satisfactory and effective operation of financial and operational controls;
- external auditors providing advice on specific accounting and tax issues; and
- a confidential helpline service to provide staff with a confidential, and if required, anonymous means to report fraud or ethical concerns.

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

DIRECTORS' INSURANCE

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

DISCLOSURE OF INFORMATION TO THE AUDITORS

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

REAPPOINTMENT OF AUDITORS

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

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 3 to 14);

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

POST BALANCE SHEET EVENT

Throughout 2015 the employees in NIE Networks' subsidiary company, NIE Networks Services Limited, provided construction, maintenance, metering and other services to NIE Networks and were fully integrated into NIE Networks' organisational structure. In order to simplify the Group structure, with effect from 1 January 2016, the responsibility for the functions and employees of NIE Networks Services Limited was transferred to NIE Networks and NIE Networks Services Limited ceased operational activity.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

In preparing those accounts the directors are required to:

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

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

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

As required under the UK Listing Authority's Disclosure and Transparency Rules, each of the directors as detailed on page 23 confirms that to the best of his/her knowledge:

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

The considerations set out above for the Group are also required to be addressed by the directors in

preparing the accounts of the Company, in respect of which the applicable accounting standards are those which are generally accepted in the United Kingdom. The directors have elected to prepare the Company's Accounts in accordance with Generally Accepted Accounting Practice in the United Kingdom comprising FRS 101, issued by the Financial Reporting Council.

By order of the Board

Nicholas Tarrant
Managing Director

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

7 March 2016

INDEPENDENT AUDITOR'S REPORT

To the members of Northern Ireland Electricity Networks Limited (formerly Northern Ireland Electricity Limited)

We have audited the accounts of Northern Ireland Electricity Networks Limited (formerly Northern Ireland Electricity Limited) for the year ended 31 December 2015, which comprise the Group Income Statement, the Group and Company Statements of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group Cash Flow Statement and the related notes 1 to 27. The financial reporting framework that has been applied in the preparation of the Group accounts is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounts

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

Opinion on the accounts

In our opinion:

- the accounts give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2015 and of the group's profit for the year then ended;
- the Group accounts have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the Company accounts have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

Date: 9 March 2016

The maintenance and integrity of the Northern Ireland Electricity Networks Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the accounts since they were initially presented on the web site.

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

GROUP INCOME STATEMENT for the year ended 31 December 2015

| | Note | 2015 £m | 2014 £m |
|---|------|--------------------|--------------------|
| Revenue | 3 | 236.1 | 243.8 |
| Operating costs | 4 | <u>(143.8)</u> | <u>(141.4)</u> |
| OPERATING PROFIT | | 92.3 | 102.4 |
| Finance revenue | 6 | 0.1 | 84.3 |
| Finance costs | 6 | (37.6) | (121.7) |
| Net pension scheme interest | 6 | (4.1) | (3.5) |
| Net finance costs | 6 | <u>(41.6)</u> | <u>(40.9)</u> |
| PROFIT BEFORE TAX | | 50.7 | 61.5 |
| Tax charge | 7 | <u>(0.5)</u> | <u>(13.3)</u> |
| PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY | | <u>50.2</u> | <u>48.2</u> |

STATEMENTS OF COMPREHENSIVE INCOME for the year ended 31 December 2015

| | Note | Group | | Company | |
|---|------|--------------------|-------------------|--------------------|--------------------|
| | | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Profit for the financial year | | <u>50.2</u> | <u>48.2</u> | <u>48.7</u> | <u>47.1</u> |
| Other comprehensive expense: | | | | | |
| Items not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Remeasurement gains / (losses) on pension scheme assets and liabilities | 21 | 12.5 | (49.0) | 12.3 | (42.5) |
| Deferred tax (charge) / credit relating to components of other comprehensive income | 7 | <u>(4.9)</u> | <u>9.8</u> | <u>(4.6)</u> | <u>8.5</u> |
| Net other comprehensive income / (expense) for the year | | <u>7.6</u> | <u>(39.2)</u> | <u>7.7</u> | <u>(34.0)</u> |
| Total comprehensive income for the year attributable to the equity holders of the parent company | | <u>57.8</u> | <u>9.0</u> | <u>56.4</u> | <u>13.1</u> |

BALANCE SHEETS

as at 31 December 2015

| | | Group | | Company | |
|----------------------------------|------|----------------|----------------|----------------|----------------|
| | Note | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Non-current assets | | | | | |
| Property, plant and equipment | 9 | 1,438.2 | 1,350.1 | 1,435.8 | 1,347.8 |
| Intangible assets | 10 | 29.1 | 34.1 | 29.1 | 34.1 |
| Trade and other receivables | 12 | - | - | 21.5 | 21.2 |
| Derivative financial assets | 16 | 454.5 | 487.6 | 454.5 | 487.6 |
| Investments | 17 | - | - | 7.9 | 7.9 |
| | | 1,921.8 | 1,871.8 | 1,948.8 | 1,898.6 |
| Current assets | | | | | |
| Inventories | 11 | 9.9 | 7.7 | 9.9 | 7.7 |
| Trade and other receivables | 12 | 58.8 | 49.4 | 58.5 | 47.4 |
| Derivative financial assets | 16 | 10.9 | 11.8 | 10.9 | 11.8 |
| Cash and cash equivalents | 13 | 17.7 | 23.7 | 17.1 | 23.5 |
| | | 97.3 | 92.6 | 96.4 | 90.4 |
| TOTAL ASSETS | | 2,019.1 | 1,964.4 | 2,045.2 | 1,989.0 |
| Current liabilities | | | | | |
| Trade and other payables | 14 | 113.6 | 83.6 | 116.2 | 84.0 |
| Current tax payable | | 5.6 | 6.1 | 5.6 | 6.1 |
| Deferred income | 15 | 11.8 | 10.6 | 11.8 | 10.6 |
| Financial liabilities: | | | | | |
| Derivative financial liabilities | 16 | 10.9 | 11.8 | 10.9 | 11.8 |
| Other financial liabilities | 18 | 18.2 | 18.2 | 18.2 | 18.2 |
| Provisions | 20 | 0.6 | 0.5 | 0.5 | 0.5 |
| | | 160.7 | 130.8 | 163.2 | 131.2 |
| Non-current liabilities | | | | | |
| Deferred tax liabilities | 7 | 68.4 | 69.7 | 63.5 | 64.5 |
| Deferred income | 15 | 339.4 | 298.0 | 339.4 | 298.0 |
| Financial liabilities: | | | | | |
| Derivative financial liabilities | 16 | 454.5 | 487.6 | 454.5 | 487.6 |
| Other financial liabilities | 18 | 572.7 | 572.4 | 572.7 | 572.4 |
| Provisions | 20 | 8.4 | 8.8 | 8.0 | 8.5 |
| Pension liability | 21 | 104.4 | 127.9 | 133.8 | 156.7 |
| | | 1,547.8 | 1,564.4 | 1,571.9 | 1,587.7 |
| TOTAL LIABILITIES | | 1,708.5 | 1,695.2 | 1,735.1 | 1,718.9 |
| NET ASSETS | | 310.6 | 269.2 | 310.1 | 270.1 |
| Equity | | | | | |
| Share capital | 22 | 36.4 | 36.4 | 36.4 | 36.4 |
| Share premium | 22 | 24.4 | 24.4 | 24.4 | 24.4 |
| Capital redemption reserve | 22 | 6.1 | 6.1 | 6.1 | 6.1 |
| Accumulated profits | 22 | 243.7 | 202.3 | 243.2 | 203.2 |
| TOTAL EQUITY | | 310.6 | 269.2 | 310.1 | 270.1 |

The accounts were approved by the Board of directors and authorised for issue on 7 March 2016. They were signed on its behalf by:

Nicholas Tarrant
Director

Date: 7 March 2016

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2015

Group

| | Note | Share capital £m | Share premium £m | Capital redemption reserve £m | Accumulated profits £m | Total £m |
|---|------|------------------------|------------------------|--|------------------------------|--------------|
| At 1 January 2014 | | 36.4 | 24.4 | 6.1 | 207.1 | 274.0 |
| 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) |
| At 1 January 2015 | | 36.4 | 24.4 | 6.1 | 202.3 | 269.2 |
| Profit for the year | | - | - | - | 50.2 | 50.2 |
| Net other comprehensive income for the year | | - | - | - | 7.6 | 7.6 |
| Total comprehensive income for the year | | - | - | - | 57.8 | 57.8 |
| Effect of decreased tax rate on opening asset | 7 | - | - | - | 0.1 | 0.1 |
| Dividends to the shareholder | 22 | - | - | - | (16.5) | (16.5) |
| At 31 December 2015 | | 36.4 | 24.4 | 6.1 | 243.7 | 310.6 |

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2015

Company

| | Note | Share capital £m | Share premium £m | Capital redemption reserve £m | Accumulated profits £m | Total £m |
|--|------|---------------------|---------------------|-------------------------------------|------------------------------|--------------|
| At 1 January 2014 | | 36.4 | 24.4 | 6.1 | 203.9 | 270.8 |
| 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) |
| At 1 January 2015 | | 36.4 | 24.4 | 6.1 | 203.2 | 270.1 |
| Profit for the year | | - | - | - | 48.7 | 48.7 |
| Net other comprehensive income for the year | | - | - | - | 7.7 | 7.7 |
| Total comprehensive income for the year | | - | - | - | 56.4 | 56.4 |
| Effect of decreased tax rate on opening asset | 7 | - | - | - | 0.1 | 0.1 |
| Dividends to the shareholder | 22 | - | - | - | (16.5) | (16.5) |
| At 31 December 2015 | | 36.4 | 24.4 | 6.1 | 243.2 | 310.1 |

CASH FLOW STATEMENT

for the year ended 31 December 2015

| | Note | Group | |
|---|------|----------------|----------------|
| | | 2015 £m | 2014 £m |
| Cash flows from operating activities | | | |
| Profit for the year | | 50.2 | 48.2 |
| Adjustments for: | | | |
| Tax charge | | 0.5 | 13.3 |
| Net finance costs | 6 | 41.6 | 40.9 |
| Depreciation of property, plant and equipment | 9 | 55.7 | 53.0 |
| Release of customers' contributions and grants | 15 | (11.5) | (10.6) |
| Amortisation of intangible assets | 10 | 5.2 | 5.1 |
| Contributions in respect of property, plant and equipment | 15 | 54.1 | 33.5 |
| Defined benefit pension charge less contributions paid | 21 | (15.1) | (15.9) |
| Net movement in provisions | 20 | (0.3) | (0.7) |
| Operating cash flows before movement in working capital | | 180.4 | 166.8 |
| Increase in inventories | | (2.2) | (1.4) |
| (Increase) / decrease in trade and other receivables | | (9.4) | 6.6 |
| Increase in trade and other payables | | 23.7 | 1.6 |
| Decrease in working capital | | 12.1 | 6.8 |
| Cash generated from operations | | 192.5 | 173.6 |
| Interest received | | 0.1 | 84.3 |
| Interest paid | | (37.5) | (121.5) |
| Current taxes paid | | (7.1) | (11.1) |
| Net cash flows from operating activities | | 148.0 | 125.3 |
| Cash flows used in investing activities | | | |
| Purchase of property, plant and equipment | | (137.3) | (118.9) |
| Purchase of intangible assets | | (0.2) | (0.5) |
| Net cash flows used in investing activities | | (137.5) | (119.4) |
| Cash flows used in financing activities | | | |
| Dividends paid to shareholder | 22 | (16.5) | (14.0) |
| Net cash flows used in financing activities | | (16.5) | (14.0) |
| Net decrease in cash and cash equivalents | | (6.0) | (8.1) |
| Cash and cash equivalents at beginning of year | | 23.7 | 31.8 |
| Cash and cash equivalents at end of year | 13 | 17.7 | 23.7 |

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

NOTES TO THE ACCOUNTS

1. General Information

Northern Ireland Electricity Networks Limited (NIE Networks or the Company) (formerly Northern Ireland Electricity Limited) 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 Group accounts have been prepared in accordance with IFRS as adopted by the EU and applied in accordance with the provisions of the Companies Act 2006. The Company accounts have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The accounts are presented in Sterling (£) with all values rounded to the nearest £100,000 except where otherwise indicated.

2. Accounting Policies

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

New and revised accounting standards and interpretations

The following standards and amendments to standards, applicable from 1 January 2015, were effective for the year, but did not have a material impact on the accounting policies, financial position or performance of the Group:

Amendment to IAS19 Employee Benefits on Defined Benefit Plans

Annual Improvements to IFRSs – 2010 to 2012 cycle

Annual Improvements to IFRSs – 2011 to 2013 cycle

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

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

IFRS 11 Joint Arrangements (effective 1 January 2016)

IFRS 12 Disclosure of Interest in Other Entities

IFRS 14 Regulatory Deferral Accounts (effective 1 January 2016)

IAS 1 Presentation of Financial Statements (effective 1 January 2016)

IAS 16 Property, Plant and Equipment (effective 1 January 2016)

IAS 27 Consolidated and Separate Financial Statements (effective 1 January 2016)

IAS 38 Intangible Assets (effective 1 January 2016)

IAS 41 Agriculture (effective 1 January 2016)

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

IFRS 9 Financial Instruments (effective 1 January 2018)

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

2. Accounting Policies (continued)

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

Whilst the directors do not currently anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Group's accounts in the period of initial application, the adoption of the standards and interpretations may result in certain changes in the presentation of the Group's accounts from 2016 onwards.

Basis of Preparation – Company Accounts

The Company transitioned from EU adopted IFRS to FRS 101 for all periods presented. The Company's parent undertaking, ESBNI Limited, was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions. There were no material amendments resulting from the adoption of FRS 101.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirements of paragraphs 10(d), 10(f), 16, 38(a), 38(b), 38(c), 38(d), 40(a), 40(b), 40(c), 40(d), 111 and 134-136 of IAS 1 *Presentation of Financial Statements*, including requirements relating to cash flows, comparative information, statement of compliance and the management of capital;
- b) the requirements of IAS 7 *Statement of Cash Flows* of preparing a cash flow statement for the Company;
- c) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* relating to the disclosure of amendments to IFRSs that are not yet effective;
- d) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures* for key management personnel and information; and
- e) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Basis of Preparation – Going Concern

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

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

Basis of consolidation

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

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

Company's investments in subsidiaries

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

Property, plant and equipment

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

2. Accounting Policies (continued)

Property, plant and equipment (continued)

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

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.

2. Accounting Policies (continued)

Financial instruments (continued)

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.

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.

2. Accounting Policies (continued)

Tax (continued)

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.

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

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

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

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

Provisions

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

Pensions and other post-retirement benefits

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

Pension scheme assets are measured at fair value and liabilities are measured using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the liabilities. Full actuarial valuations are obtained at least triennially and updated at each balance sheet date. 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

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.

| | 2015 £m | 2014 £m |
|--|--------------|--------------|
| Revenue: | | |
| Sales revenue | 225.1 | 233.7 |
| Release of customer contributions from deferred income | 11.0 | 10.1 |
| | <u>236.1</u> | <u>243.8</u> |
| Interest receivable | 0.1 | 73.4 |
| | <u>236.2</u> | <u>317.2</u> |

During the year, three customers accounted for sales revenue totalling £163.0m (2014 – three customers accounted for £174.5m).

Geographical information

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

| | UK £m | 2015 RoI £m | Total £m | UK £m | 2014 RoI £m | Total £m |
|--|--------------|-------------------|--------------|--------------|-------------------|--------------|
| | <u>220.2</u> | <u>15.9</u> | <u>236.1</u> | <u>226.3</u> | <u>17.5</u> | <u>243.8</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:

| | 2015 £m | 2014 £m |
|-------------------------------|--------------|--------------|
| Employee costs (note 5) | 18.1 | 19.7 |
| Depreciation and amortisation | 60.9 | 58.1 |
| Other operating charges | 64.8 | 63.6 |
| | <u>143.8</u> | <u>141.4</u> |

Operating costs include:

| | | |
|--|------|------|
| Depreciation charge on property, plant and equipment | 55.7 | 53.0 |
| Amortisation of intangible assets | 5.2 | 5.1 |
| Minimum payments due under operating leases | 0.4 | 0.4 |
| Cost of inventories recognised as an expense | 1.7 | 1.5 |

4. Operating Costs (continued)

Operating costs include:

| | 2015 £'000 | 2014 £'000 |
|--|---------------|---------------|
| Auditor's remuneration | | |
| Fees payable to the Group and Company auditors for the audit of the accounts | 23 | 23 |
| Fees payable to the Group and Company auditors for other services: | | |
| The audit of the company's subsidiaries pursuant to legislation | 13 | 13 |
| Audit related assurance services | 30 | 30 |
| Tax compliance services | 2 | 2 |

5. Employees

Employee costs

| | 2015 £m | 2014 £m |
|--|--------------|--------------|
| Salaries | 14.3 | 14.2 |
| Social security costs | 1.5 | 1.3 |
| Pension costs | | |
| - defined contribution plans | 1.0 | 0.9 |
| - defined benefit plans | 7.5 | 9.4 |
| | <u>24.3</u> | <u>25.8</u> |
| Less: amounts capitalised to property, plant and equipment and intangible assets | <u>(6.2)</u> | <u>(6.1)</u> |
| Charged to the income statement | <u>18.1</u> | <u>19.7</u> |

| | Average during the year | | Actual headcount as at 31 December | |
|--|-------------------------|----------------|---------------------------------------|----------------|
| | 2015 Number | 2014 Number | 2015 Number | 2014 Number |
| Management, administration and support | 286 | 294 | 293 | 277 |
| Electrical services | 919 | 957 | 929 | 907 |
| Employee numbers | <u>1,205</u> | <u>1,251</u> | <u>1,222</u> | <u>1,184</u> |

Directors' emoluments

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

| | 2015 £m | 2014 £m |
|--|------------|------------|
| Emoluments in respect of qualifying services | 0.6 | 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 number of directors to whom retirement benefits are accruing, under defined benefit and defined contribution pension schemes, was as follows:

| | 2015 Number | 2014 Number |
|--------------------------------|----------------|----------------|
| Defined benefit pension scheme | - | - |
| Defined contribution scheme | 1 | 1 |

Aggregate contributions by the Company to defined contribution pension schemes in respect of the directors during the year was £57,000 (2014 - £55,000).

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

| As at 31 December | 2015 £'000 | 2014 £'000 |
|--|-----------------------|-----------------------|
| Emoluments | 272 | 264 |
| Total accrued pension at 31 December (per annum) | - | - |

6. Net Finance Costs

| | 2015 £m | 2014 £m |
|--|----------------------|-----------------------|
| Interest receivable: | | |
| Bank interest receivable | <u>0.1</u> | <u>84.3</u> |
| Interest payable: | | |
| £175m bond | (12.0) | (12.0) |
| £400m bond | (25.5) | (25.5) |
| Interest rate swaps | <u>-</u> | <u>(84.0)</u> |
| | (37.5) | (121.5) |
| Less: capitalised interest | <u>0.2</u> | <u>0.1</u> |
| Total interest charged to the income statement | <u>(37.3)</u> | <u>(121.4)</u> |
| Other finance costs: | | |
| Amortisation of financing charges | <u>(0.3)</u> | <u>(0.3)</u> |
| Total finance costs | <u>(37.6)</u> | <u>(121.7)</u> |
| Net pension interest cost | <u>(4.1)</u> | <u>(3.5)</u> |
| Net finance costs | <u>(41.6)</u> | <u>(40.9)</u> |

Interest recognised in the balance sheet during the year was capitalised using a weighted average interest rate of 6.63% (2014 - 6.63%).

7. Tax Charge

(i) Analysis of charge during the year

| Group Income Statement | 2015 £m | 2014 £m |
|---|------------|------------|
| Current tax charge | | |
| UK corporation tax at 20.25% (2014 – 21.5%) | 6.6 | 9.3 |
| Total current income tax | 6.6 | 9.3 |
| Deferred tax (credit) / charge | | |
| Origination and reversal of temporary differences in current year | 3.7 | 4.1 |
| Origination and reversal of temporary differences relating to prior years | (0.3) | (0.1) |
| Effect of decreased tax rate on opening liability | (9.5) | - |
| Total deferred tax (credit) / charge | (6.1) | 4.0 |
| Total tax charge | 0.5 | 13.3 |
| Tax relating to items charged / (credited) in other comprehensive income | | |
| Deferred tax | | |
| Deferred tax charge / (credit) relating to components of other comprehensive income | 2.2 | (9.8) |
| Effect of decreased tax rate on opening asset | 2.7 | - |
| | 4.9 | (9.8) |
| Tax relating to items charged / (credited) to changes in equity | | |
| Deferred tax | | |
| Charge relating to gain on reappportionment of pension assets (see note 21) | - | 0.1 |
| Effect of decreased rate on opening asset | (0.1) | - |
| | (0.1) | 0.1 |

(ii) Reconciliation of total tax charge

The tax charge in the Group Income Statement for the year is lower (2014 – higher) than the standard rate of corporation tax in the UK of 20.25% (2014 – 21.5%). The differences are reconciled below:

| | 2015 £m | 2014 £m |
|--|------------|------------|
| Accounting profit before tax charge | 50.7 | 61.5 |
| Accounting profit multiplied by the UK standard rate of corporation tax of 20.25% (2014 – 21.5%) | 10.3 | 13.2 |
| Tax effect of: | | |
| Impact of deferred tax at reduced rate | (10.0) | (0.3) |
| Other permanent differences | 0.5 | 0.5 |
| Tax over-provided in previous years | (0.3) | (0.1) |
| Tax charge for the year | 0.5 | 13.3 |

7. Tax Charge (continued)

(iii) Deferred tax

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

| | Group | | Company | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Deferred tax assets | | | | |
| Pension liability | 18.8 | 25.5 | 24.1 | 31.3 |
| Other temporary differences | 0.8 | 1.2 | 0.8 | 0.8 |
| | <u>19.6</u> | <u>26.7</u> | <u>24.9</u> | <u>32.1</u> |
| Deferred tax liabilities | | | | |
| Accelerated capital allowances | (87.2) | (95.5) | (87.6) | (95.7) |
| Held-over gains on property disposals | (0.8) | (0.9) | (0.8) | (0.9) |
| | <u>(88.0)</u> | <u>(96.4)</u> | <u>(88.4)</u> | <u>(96.6)</u> |
| Net deferred tax liability | <u>(68.4)</u> | <u>(69.7)</u> | <u>(63.5)</u> | <u>(64.5)</u> |

Deferred tax has been calculated at 18% as at 31 December 2015 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:

| | 2015 £m | 2014 £m |
|--|--------------|------------|
| Accelerated capital allowances | (8.3) | 1.4 |
| Temporary differences in respect of pensions | 1.9 | 2.5 |
| Other temporary differences | 0.3 | 0.1 |
| Deferred tax (credit) / charge | <u>(6.1)</u> | <u>4.0</u> |

8. Profit for the Financial Year

The profit of the Company is £48.7m (2014 - £47.1m). No separate income statement is presented for the Company as permitted by Section 408 of the Companies Act 2006.

9. Property, Plant and Equipment

| Group | Infrastructure assets £m | Non-operational land and buildings £m | Fixtures and equipment £m | Vehicles and mobile plant £m | Total £m |
|----------------------------|-----------------------------|--|------------------------------|---------------------------------|----------------|
| Cost: | | | | | |
| At 1 January 2014 | 2,001.8 | 5.1 | 63.7 | 7.8 | 2,078.4 |
| Additions | 108.7 | - | 5.9 | 0.8 | 115.4 |
| At 31 December 2014 | 2,110.5 | 5.1 | 69.6 | 8.6 | 2,193.8 |
| Additions | 138.6 | - | 4.7 | 0.5 | 143.8 |
| At 31 December 2015 | 2,249.1 | 5.1 | 74.3 | 9.1 | 2,337.6 |
| Depreciation: | | | | | |
| At 1 January 2014 | 732.8 | 1.5 | 51.0 | 5.4 | 790.7 |
| Charge for the year | 49.1 | 0.1 | 3.0 | 0.8 | 53.0 |
| At 31 December 2014 | 781.9 | 1.6 | 54.0 | 6.2 | 843.7 |
| Charge for the year | 51.6 | 0.1 | 3.2 | 0.8 | 55.7 |
| At 31 December 2015 | 833.5 | 1.7 | 57.2 | 7.0 | 899.4 |
| Net book value: | | | | | |
| At 31 December 2014 | 1,328.6 | 3.5 | 15.6 | 2.4 | 1,350.1 |
| At 31 December 2015 | 1,415.6 | 3.4 | 17.1 | 2.1 | 1,438.2 |

Infrastructure assets include amounts in respect of assets under construction of £58.9m (2014 - £40.4m).

9. Property, Plant and Equipment (continued)

| Company | Infrastructure assets £m | Non- operational land and buildings £m | Fixtures and equipment £m | Total £m |
|----------------------------|--------------------------------|--|------------------------------------|----------------|
| Cost: | | | | |
| At 1 January 2014 | 2,002.4 | 5.1 | 58.1 | 2,065.6 |
| Additions | 109.3 | - | 5.6 | 114.9 |
| At 31 December 2014 | 2,111.7 | 5.1 | 63.7 | 2,180.5 |
| Additions | 139.0 | - | 4.0 | 143.0 |
| At 31 December 2015 | 2,250.7 | 5.1 | 67.7 | 2,323.5 |
| Depreciation: | | | | |
| At 1 January 2014 | 732.8 | 1.5 | 46.1 | 780.4 |
| Charge for the year | 49.5 | 0.1 | 2.7 | 52.3 |
| At 31 December 2014 | 782.3 | 1.6 | 48.8 | 832.7 |
| Charge for the year | 52.0 | 0.1 | 2.9 | 55.0 |
| At 31 December 2015 | 834.3 | 1.7 | 51.7 | 887.7 |
| Net book value: | | | | |
| At 31 December 2014 | 1,329.4 | 3.5 | 14.9 | 1,347.8 |
| At 31 December 2015 | 1,416.4 | 3.4 | 16.0 | 1,435.8 |

Infrastructure assets include amounts in respect of assets under construction of £58.9m (2014 - £40.4m).

10. Intangible Assets

| Computer software | Group | | Company | |
|-----------------------------------|------------|------------|------------|------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Cost: | | | | |
| At the beginning of the year | 102.4 | 101.9 | 102.3 | 101.8 |
| Additions acquired externally | 0.2 | 0.5 | 0.2 | 0.5 |
| At the end of the year | 102.6 | 102.4 | 102.5 | 102.3 |
| Amortisation / impairment: | | | | |
| At the beginning of the year | 68.3 | 63.2 | 68.2 | 63.1 |
| Amortisation charge for the year | 5.2 | 5.1 | 5.2 | 5.1 |
| At the end of the year | 73.5 | 68.3 | 73.4 | 68.2 |
| Net book value: | | | | |
| At the beginning of the year | 34.1 | 38.7 | 34.1 | 38.7 |
| At the end of the year | 29.1 | 34.1 | 29.1 | 34.1 |

Software assets include amounts in respect of assets under construction amounting to £0.3m (2014 - £0.3m).

11. Inventories

| Group and Company | 2015 £m | 2014 £m |
|---------------------------|------------|------------|
| Materials and consumables | 8.8 | 6.8 |
| Work-in-progress | 1.1 | 0.9 |
| | 9.9 | 7.7 |

12. Trade and Other Receivables

| | Group | | Company | |
|--|------------|------------|------------|------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Current | | | | |
| Trade receivables (including unbilled consumption) | 53.3 | 41.9 | 53.3 | 41.8 |
| Other receivables | 0.6 | 0.6 | 0.6 | 0.6 |
| Amounts owed by group undertakings | 3.0 | 3.2 | 3.0 | 3.2 |
| Prepayments and accrued income | 1.9 | 3.7 | 1.6 | 1.8 |
| | 58.8 | 49.4 | 58.5 | 47.4 |
| Non-current | | | | |
| Amounts owed by group undertakings | - | - | 21.5 | 21.2 |

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

The largest trade receivable at the year end, due from one customer, is £9.4m (2014 - £9.7m).

12. Trade and Other Receivables (continued)

Trade receivables are stated net of an allowance of £0.3m (2014 - £0.4m) 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.

| Group and Company | 2015 £m | 2014 £m |
|-------------------------------|-------------------|------------|
| At the beginning of the year | 0.4 | 0.6 |
| Increase in allowance | 0.1 | 0.1 |
| Bad debts written off | (0.2) | (0.3) |
| At the end of the year | 0.3 | 0.4 |

The allowance of £0.3m includes £0.2m (2014 - £0.3m) in respect of individual balances impaired based on the age of debt and past default experience.

The following shows an aged analysis of current trade receivables:

| | Group | | Company | |
|-----------------------------------|-------------------|------------|-------------------|------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Within credit terms: | | | | |
| Current | 44.2 | 39.3 | 44.1 | 39.2 |
| Past due but not impaired: | | | | |
| Less than 30 days | 3.8 | 0.7 | 3.9 | 0.7 |
| 30 - 60 days | 1.2 | 0.2 | 1.2 | 0.2 |
| 60 - 90 days | 0.7 | 0.3 | 0.7 | 0.3 |
| + 90 days | 3.4 | 1.4 | 3.4 | 1.4 |
| | 53.3 | 41.9 | 53.3 | 41.8 |

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

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

13. Cash and Cash Equivalents

| | Group | | Company | |
|--------------------------|-------------------|------------|-------------------|------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Cash at bank and in hand | 13.3 | 3.7 | 12.7 | 3.5 |
| Short-term deposits | 4.4 | 20.0 | 4.4 | 20.0 |
| | 17.7 | 23.7 | 17.1 | 23.5 |

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

14. Trade and Other Payables

| | Group | | Company | |
|------------------------------------|--------------|-------------|--------------|-------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Trade payables | 19.1 | 12.7 | 18.3 | 12.2 |
| Payments received on account | 52.4 | 43.2 | 52.4 | 43.2 |
| Amounts owed to group undertakings | 1.8 | 0.8 | 8.3 | 6.7 |
| Tax and social security | 8.7 | 8.7 | 8.0 | 7.9 |
| Accruals | 23.3 | 17.8 | 20.9 | 13.6 |
| Other payables | 8.3 | 0.4 | 8.3 | 0.4 |
| | 113.6 | 83.6 | 116.2 | 84.0 |

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

15. Deferred Income

Group and Company

| | Grants £m | Customers' contributions £m | Total £m |
|--|--------------|-----------------------------------|----------------|
| Current | 0.5 | 9.3 | 9.8 |
| Non-current | 6.9 | 269.0 | 275.9 |
| Total at 1 January 2014 | 7.4 | 278.3 | 285.7 |
| Receivable Released to income statement | - (0.5) | 33.5 (10.1) | 33.5 (10.6) |
| Current | 0.5 | 10.1 | 10.6 |
| Non-current | 6.4 | 291.6 | 298.0 |
| Total at 31 December 2014 | 6.9 | 301.7 | 308.6 |
| Receivable Released to income statement | - (0.5) | 54.1 (11.0) | 54.1 (11.5) |
| Current | 0.5 | 11.3 | 11.8 |
| Non-current | 5.9 | 333.5 | 339.4 |
| Total at 31 December 2015 | 6.4 | 344.8 | 351.2 |

16. Derivative Financial Instruments

| Group and Company - Interest rate swaps | 2015 £m | 2014 £m |
|---|----------------|----------------|
| Current assets | 10.9 | 11.8 |
| Non-current assets | <u>454.5</u> | <u>487.6</u> |
| | <u>465.4</u> | <u>499.4</u> |
| Current liabilities | (10.9) | (11.8) |
| Non-current liabilities | <u>(454.5)</u> | <u>(487.6)</u> |
| | <u>(465.4)</u> | <u>(499.4)</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.

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

Arising from movements in forward interest rates and RPI forward prices during the year, positive fair value movements of £21.4m occurred in 2015 (2014 – negative fair value movements of £195.2m, of which £73.1m was attributable to the restructuring noted above). These have been recognised in finance costs in the income statement.

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

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 2015 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 £50.5m / (£51.1m) (2014 - £52.0m / (£53.9m)). 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 £50.5m / (£51.1m) (2014 - £52.0m / (£53.9m)) 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

| | 2015 £m | 2014 £m |
|--------------------------------------|------------|------------|
| Cost: | | |
| At the beginning and end of the year | <u>7.9</u> | <u>7.9</u> |

The Company holds the entire share capital of NIE Networks Services Limited and NIE Finance PLC which have been fully consolidated into the accounts.

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

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 provided services to the Company, revenue on consolidation is £nil, except for external sales relating to training services provided.

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 Limited (formerly named Northern Ireland Electricity Networks Limited and, previous to that, NIE Generation Limited) and NIE Limited. These companies are dormant and the carrying value of these investments as at 31 December 2015 is £nil (2014 - £nil).

18. Other Financial Liabilities

| | Group | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Current | | | | |
| Interest payable on £175m bond | 3.4 | 3.4 | 3.4 | 3.4 |
| Interest payable on £400m bond | 14.8 | 14.8 | - | - |
| Interest payable to group undertakings | - | - | 14.8 | 14.8 |
| | 18.2 | 18.2 | 18.2 | 18.2 |
| Non-current | | | | |
| £175m bond | 174.4 | 174.2 | 174.4 | 174.2 |
| £400m bond | 398.3 | 398.2 | - | - |
| Amounts owed to group undertakings | - | - | 398.3 | 398.2 |
| | 572.7 | 572.4 | 572.7 | 572.4 |

Loans and other borrowings outstanding are repayable as follows:

| Group and Company | 2015 £m | 2014 £m |
|----------------------------------|--------------|--------------|
| In one year or less or on demand | 18.2 | 18.2 |
| Between two and five years | 174.4 | 174.2 |
| In more than five years | 398.3 | 398.2 |
| | 590.9 | 590.6 |

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, which are listed on the London Stock Exchange's regulated market, had fair values at 31 December 2015 of £197.2m (2014 - £205.2m) and £519.4m (2014 - £519.4m) respectively, based on current market prices. The Company's £400m back-to-back loan had a fair value at 31 December 2015 of £519.4m (2014 - £519.4m) based on the fair value of the £400m bond.

The fair value of bonds as at 31 December 2015 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.

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.

| At 31 December 2015 Group | On demand £m | Within 3 months £m | 3 to 12 months £m | 1 to 5 years £m | More than 5 years £m | Total £m |
|--|-----------------|-----------------------|----------------------|--------------------|-------------------------|---------------------|
| £175m bond (including interest payable) | - | - | 12.0 | 199.1 | - | 211.1 |
| £400m bond (including interest payable) | - | - | 25.5 | 102.0 | 553.0 | 680.5 |
| Trade and other payables | 60.7 | 44.2 | - | - | - | 104.9 |
| Interest rate swap liabilities | - | - | 10.9 | 85.7 | 468.5 | 565.1 |
| | 60.7 | 44.2 | 48.4 | 386.8 | 1,021.5 | 1,561.6 |
| At 31 December 2014 Group | On demand £m | Within 3 months £m | 3 to 12 months £m | 1 to 5 years £m | More than 5 years £m | Total £m |
| £175m bond (including interest payable) | - | - | 12.0 | 211.1 | - | 223.1 |
| £400m bond (including interest payable) | - | - | 25.5 | 102.0 | 578.5 | 706.0 |
| Trade and other payables | 43.6 | 31.3 | - | - | - | 74.9 |
| Interest rate swap liabilities | - | - | 11.8 | 105.8 | 485.0 | 602.6 |
| | 43.6 | 31.3 | 49.3 | 418.9 | 1,063.5 | 1,606.6 |

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

| At 31 December 2015 Company | On demand £m | Within 3 months £m | 3 to 12 months £m | 1 to 5 years £m | More than 5 years £m | Total £m |
|--|-----------------|-----------------------|----------------------|--------------------|-------------------------|---------------------|
| £175m bond (including interest payable) | - | - | 12.0 | 199.1 | - | 211.1 |
| Amounts owed to group undertakings | - | - | 25.5 | 102.0 | 553.0 | 680.5 |
| Trade and other payables | 60.7 | 47.5 | - | - | - | 108.2 |
| Interest rate swap liabilities | - | - | 10.9 | 85.7 | 468.5 | 565.1 |
| | 60.7 | 47.5 | 48.4 | 386.8 | 1,021.5 | 1,564.9 |
| At 31 December 2014 Company | On demand £m | Within 3 months £m | 3 to 12 months £m | 1 to 5 years £m | More than 5 years £m | Total £m |
| £175m bond (including interest payable) | - | - | 12.0 | 211.1 | - | 223.1 |
| Amounts owed to group undertakings | - | - | 25.5 | 102.0 | 578.5 | 706.0 |
| Trade and other payables | 43.6 | 32.5 | - | - | - | 76.1 |
| Interest rate swap liabilities | - | - | 11.8 | 105.8 | 485.0 | 602.6 |
| | 43.6 | 32.5 | 49.3 | 418.9 | 1,063.5 | 1,607.8 |

19. Analysis of Net Debt

| Group | At 1 January 2015 £m | Cash flow £m | Non cash movement £m | At 31 December 2015 £m |
|--|-------------------------------|--------------------|-------------------------------|---------------------------------|
| Cash and cash equivalents | 23.7 | (6.0) | - | 17.7 |
| 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 | (174.2) | - | (0.2) | (174.4) |
| £400m bond | (398.2) | - | (0.1) | (398.3) |
| | <u>(566.9)</u> | <u>31.5</u> | <u>(37.8)</u> | <u>(573.2)</u> |
| Company | At | Cash | Non | At |
| | 1 January | Flow | cash | 31 December |
| | 2015 | £m | movement | 2015 |
| | £m | | £m | £m |
| Cash and cash equivalents | 23.5 | (6.4) | - | 17.1 |
| 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 | (174.2) | - | (0.2) | (174.4) |
| Amounts owed to group undertakings | (398.2) | - | (0.1) | (398.3) |
| | <u>(567.1)</u> | <u>31.1</u> | <u>(37.8)</u> | <u>(573.8)</u> |

20. Provisions

| Group | Environment £m | Liability and damage claims £m | Other £m | Total £m |
|----------------------------------|-------------------|--------------------------------------|-------------|-------------|
| Current | - | 0.5 | - | 0.5 |
| Non-current | 4.6 | 4.1 | 0.1 | 8.8 |
| Total at 1 January 2015 | 4.6 | 4.6 | 0.1 | 9.3 |
| Applied in the year | - | (0.6) | (0.1) | (0.7) |
| Increase in provisions | - | 1.3 | - | 1.3 |
| Release to income statement | - | (0.9) | - | (0.9) |
| Current | - | 0.6 | - | 0.6 |
| Non-current | 4.6 | 3.8 | - | 8.4 |
| Total at 31 December 2015 | 4.6 | 4.4 | - | 9.0 |

| Company | Environment £m | Liability and damage claims £m | Other £m | Total £m |
|----------------------------------|-------------------|--------------------------------------|-------------|-------------|
| Current | - | 0.5 | - | 0.5 |
| Non-current | 4.6 | 3.8 | 0.1 | 8.5 |
| Total at 1 January 2015 | 4.6 | 4.3 | 0.1 | 9.0 |
| Applied in the year | - | (0.5) | (0.1) | (0.6) |
| Increase in provisions | - | 1.0 | - | 1.0 |
| Release to income statement | - | (0.9) | - | (0.9) |
| Current | - | 0.5 | - | 0.5 |
| Non-current | 4.6 | 3.4 | - | 8.0 |
| Total at 31 December 2015 | 4.6 | 3.9 | - | 8.5 |

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 related to costs of early retirement and redundancy that arose due to Company reorganisation and restructuring.

21. Pension Commitments

Most employees of the Group are members of Northern Ireland Electricity Pension Scheme (NIEPS or the scheme). The scheme has two sections: 'Options' which is a money purchase arrangement whereby the Group generally matches the members' contributions up to a maximum of 7% of salary and 'Focus' which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the scheme are held under trust and invested by the trustees on the advice of professional investment managers. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets and the day to day administration of the benefits.

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

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the scheme was carried out by a qualified actuary as at 31 March 2014 and showed a deficit of £110.7m. The Company is paying deficit contributions of £16.7m per annum (increasing in line with inflation) from 1 April 2015 which along with investment returns from return-seeking assets is expected to make good this shortfall by 31 March 2022. The Company also pays contributions of 28.3% of pensionable salaries in respect of current accrual, with active members paying a further 6% of pensionable salaries.

Profile of the scheme

The net liability includes benefits for current employees, former employees and current pensioners. Broadly, about 21% of the liabilities are attributable to current employees, 5% to former employees and 74% to current pensioners. The scheme duration is an indication of the weighted average time until benefit payments are made. For the NIEPS, the duration is around 14 years (2014 – 14 years) based on the last funding valuation.

Risks associated with the scheme

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

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

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

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

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

The trustees insure certain benefits payable on death before retirement.

21. Pension Commitments (continued)

Mercer, the actuaries to NIEPS, have provided a valuation of Focus under IAS 19 as at 31 December 2015 based on the following assumptions (in nominal terms) and using the projected unit credit method:

| | 2015 | 2014 |
|--|--------------------|-------------|
| Rate of increase in pensionable salaries (per annum) | 3.00% | 3.25% |
| Rate of increase in pensions in payment (per annum) | 1.90% | 1.90% |
| Discount rate (per annum) | 3.80% | 3.50% |
| Inflation assumption (CPI) (per annum) | 1.90% | 1.90% |
| Life expectancy: | | |
| Current pensioners (at age 60) - males | 27.1 years | 26.5 years |
| Current pensioners (at age 60) - females | 29.7 years | 29.0 years |
| Future pensioners (at age 60) - males | *29.1 years | *28.1 years |
| Future pensioners (at age 60) - females | *31.7 years | *30.6 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 2015 shows a net pension liability (before deferred tax) of £104.4m (2014 - £127.9m). A 0.5% increase / decrease in the assumed discount rate would decrease / increase the net pension liability by £71.1m (2014 - £82.5m). A 0.5% increase / decrease in the assumed inflation rate would increase / decrease the net pension liability by £71.9m (2014 - £75.5m). A one year increase / decrease in life expectancy would increase / decrease the net pension liability by £31.2m (2014 - £38.5m).

Assets and Liabilities

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

| | Group | | Company | |
|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | Value at 31 December 2015 £m | Value at 31 December 2014 £m | Value at 31 December 2015 £m | Value at 31 December 2014 £m |
| Equities – quoted | 212.4 | 209.8 | 165.6 | 164.0 |
| Bonds – quoted | 202.3 | 400.4 | 157.8 | 313.0 |
| Diversified growth funds – quoted | 395.6 | 410.2 | 308.5 | 320.6 |
| Other assets | 175.4 | - | 136.8 | - |
| Cash | 4.9 | 5.2 | 3.8 | 4.1 |
| Total market value of assets | 990.6 | 1,025.6 | 772.5 | 801.7 |
| Actuarial value of liabilities | (1,095.0) | (1,153.5) | (906.3) | (958.4) |
| Net pension liability | (104.4) | (127.9) | (133.8) | (156.7) |

Other assets include inflation-linked investments and credit funds.

21. Pension Commitments (continued)**Changes in the market value of assets**

| | Group | | Company | |
|---|----------------|---------|----------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| | £m | £m | £m | £m |
| Market value of assets at the beginning of the year | 1,025.6 | 990.1 | 801.7 | 779.0 |
| Interest income on scheme assets | 35.3 | 42.6 | 27.6 | 33.5 |
| Contributions from employer | 23.7 | 26.7 | 19.2 | 19.3 |
| Contributions from scheme members | 0.4 | 0.5 | 0.2 | 0.2 |
| Benefits paid | (56.7) | (66.6) | (47.1) | (55.7) |
| Administration expenses paid | (1.1) | (1.4) | (0.9) | (1.2) |
| Remeasurement (losses)/gains on scheme assets | (38.4) | 33.4 | (30.0) | 26.3 |
| Re-apportionment of exiting participant's assets | - | 0.3 | - | 0.3 |
| Bulk transfer in respect of returning members | 1.9 | - | 1.9 | - |
| Settlement payments from plan assets | (0.1) | - | (0.1) | - |
| Market value of assets at the end of the year | 990.6 | 1,025.6 | 772.5 | 801.7 |

Changes in the actuarial value of liabilities

| | Group | | Company | |
|---|----------------|---------|----------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| | £m | £m | £m | £m |
| Actuarial value of liabilities at the beginning of the year | 1,153.5 | 1,081.7 | 958.4 | 904.0 |
| Interest expense on pension liability | 39.4 | 46.1 | 32.7 | 38.6 |
| Current service cost | 7.3 | 7.9 | 2.4 | 2.5 |
| Curtailed loss | 0.1 | 1.9 | 0.1 | 0.4 |
| Contributions from scheme members | 0.4 | 0.5 | 0.2 | 0.2 |
| Benefits paid | (56.7) | (66.6) | (47.1) | (55.7) |
| Settlement cost in relation to bulk transfer | - | (0.4) | - | (0.4) |
| Actuarial (gains)/ losses on scheme liabilities | (50.9) | 82.4 | (42.3) | 68.8 |
| Bulk transfer in respect of returning members | 1.9 | - | 1.9 | - |
| Actuarial value of liabilities at the end of the year | 1,095.0 | 1,153.5 | 906.3 | 958.4 |

A number of members of the Focus section of the pension scheme contracted to transfer their past service benefits to pension schemes outside the NIEPS in 2014. This bulk transfer of assets and liabilities gave rise to a net settlement charge of £0.1m (2014 – credit of £0.4m) recognised in the Income Statement.

Curtailed losses reflect the past service costs associated with the employees who left the company following a voluntary selective severance scheme.

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

The Group expects to make contributions of approximately £22.8m to Focus in 2016.

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 | |
|--|--------------|--------|----------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| | £m | £m | £m | £m |
| Current service cost | (7.3) | (7.9) | (2.4) | (2.5) |
| Administration expenses paid | (1.1) | (1.4) | (0.9) | (1.2) |
| Settlement cost in relation to bulk transfer | (0.1) | 0.4 | (0.1) | 0.4 |
| Curtailed loss | (0.1) | (1.9) | (0.1) | (0.4) |
| Total operating charge | (8.6) | (10.8) | (3.5) | (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

| | Group | | Company | |
|----------------------------------|------------|------------|------------|------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Interest income on scheme assets | 35.3 | 42.6 | 27.6 | 33.5 |
| Interest expense on liabilities | (39.4) | (46.1) | (32.7) | (38.6) |
| Net pension scheme interest | (4.1) | (3.5) | (5.1) | (5.1) |

The actual return on Focus assets was a loss of £3.1m (2014 – return of £76.0m) for the Group and loss of £2.4m (2014 – return of £59.8m) for the Company.

Analysis of amounts recognised in the Statement of Comprehensive Income

| | Group | | Company | |
|--|------------|------------|------------|------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Remeasurement (losses) / gains on scheme assets | (38.4) | 33.4 | (30.0) | 26.3 |
| Actuarial gains / (losses) on scheme liabilities | 50.9 | (82.4) | 42.3 | (68.8) |
| Net gains / (losses) | 12.5 | (49.0) | 12.3 | (42.5) |

The cumulative actuarial losses recognised in the Group and Company Statements of Comprehensive Income since 1 April 2004 are £105.0m and £107.1m respectively (2014 – £117.5m and £119.4m respectively). The directors are unable to determine how much of the net pension liability recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since the inception of Focus. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income shown before 1 April 2004.

Analysis of amounts recognised in the Statement of Changes in Equity

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Net reapportionment of exiting participant's net assets | - | 0.3 | - | 0.3 |

22. Share Capital and Equity

| | Group | | Company | |
|----------------------------|--------------|--------------|--------------|--------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £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 | 243.7 | 202.3 | 243.2 | 203.2 |
| | 310.6 | 269.2 | 310.1 | 270.1 |

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

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

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

| Allotted and fully paid share capital: | 2015 £m | 2014 £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

| | 2015 £m | 2014 £m |
|--|-------------|-------------|
| 11.3 pence per allotted share (2014: 9.62 pence) | <u>16.5</u> | <u>14.0</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:

| | 2015 £m | 2014 £m |
|---|-------------------|-------------------|
| Within one year | 1.9 | 1.8 |
| After one year but not more than five years | 3.7 | 2.2 |
| More than five years | <u>1.3</u> | <u>1.0</u> |
| | <u>6.9</u> | <u>5.0</u> |

24. Commitments and Contingent Liabilities

(i) Capital commitments

At 31 December 2015 the Group and Company had contracted future capital expenditure in respect of property, plant and equipment of £14.8m (2014 - £8.8m) and computer software assets of £2.1m (2014 - £nil).

(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 lodged an appeal to the Court of Appeal. Until the outcome of this appeal, which is due to be heard in spring 2016, 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 Networks will seek to recover the payment through a mechanism in the regulatory framework.

In relation to other contingent liabilities, the Group does not currently anticipate that any material liabilities will arise other than those recognised in the accounts.

25. Financial Commitments

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

26. Related Party Disclosures

Remuneration of key management personnel

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

| | 2015 £m | 2014 £m |
|---|------------|------------|
| Salaries and short-term employee benefits | 1.5 | 1.3 |
| Post-employment benefits | 0.3 | 0.3 |
| Other long-term benefits | 0.1 | 0.1 |
| | <u>1.9</u> | <u>1.7</u> |

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 |
|-------------------------|---------------------------------------|---|---|--|---|---|
| Year ended | | | | | | |
| 31 December 2015 | | | | | | |
| ESBNI | - | - | - | - | - | - |
| ESB subsidiaries | - | 16.3 | (3.3) | (18.0) | 3.0 | 1.8 |
| | - | 16.3 | (3.3) | (18.0) | 3.0 | 1.8 |
| Year ended | | | | | | |
| 31 December 2014 | | | | | | |
| ESBNI | 84.0 | - | - | - | - | 0.1 |
| ESB subsidiaries | - | 20.1 | (4.5) | (13.9) | 3.2 | 0.7 |
| | 84.0 | 20.1 | (4.5) | (13.9) | 3.2 | 0.8 |

Outstanding balances with subsidiaries are unsecured. Amounts owed by related parties primarily arise from transactions relating to regulated sales to ESB subsidiaries. Amounts owed to related parties primarily arise from services purchased from ESB subsidiaries. Transactions with ESB group undertakings are determined on an arm's length basis. Interest received during 2014 relates to the interest accretion paid during the year in relation to the back to back swaps with ESBNI Limited. Other amounts in relation to the back to back swaps with ESBNI Limited are 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.

Other related parties

During the year the Group contributed £27.0m (2014 – £29.6m) to NIEPS.

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 |
|-------------------------|---------------------------------------|---|---|--|---|---|
| Year to | | | | | | |
| 31 December 2015 | | | | | | |
| ESBNI | - | - | - | - | - | - |
| ESB subsidiaries | - | 16.3 | (3.3) | (18.0) | 3.0 | 1.8 |
| | - | 16.3 | (3.3) | (18.0) | 3.0 | 1.8 |
| Year to | | | | | | |
| 31 December 2014 | | | | | | |
| ESBNI | 84.0 | - | - | - | - | 0.1 |
| ESB subsidiaries | - | 20.1 | (4.5) | (13.9) | 3.2 | 0.7 |
| | 84.0 | 20.1 | (4.5) | (13.9) | 3.2 | 0.8 |

Other related parties

During the year the Company contributed £20.2m (2014 - £20.2m) to NIEPS.

27. Post Balance Sheet Events

Transfer of operations

On 1 January 2016, all assets, operations and employees of NIE Networks Services Limited, a wholly owned subsidiary of the Company, which provided construction, maintenance, metering and other services to the Company, transferred to NIE Networks and NIE Networks Services Limited ceased operational activity.

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