Northern Ireland Electricity Networks

ANNUAL REPORT & FINANCIAL STATEMENTS

12 months ended 31 December 2020

INVESTORS IN PEOPLE | Gold

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2020 AT A GLANCE

- Continued focus on the health and safety of staff, contractors and the general public with development of Safer Together programme
- Maintained reliable electricity supply for customers throughout Covid-19 pandemic through the commitment and dedication of all our staff and contractors
- Significant staff participation in volunteering initiatives to support local communities during pandemic
- Cumulative Renewable generation connected to the electricity network reached 1.7GW
- 6% reduction in customer complaints through continued focus on customer service
- Successful response to network damage resulting from adverse weather conditions with 100% of affected customers restored within 24 hours
- Continued management of outages to reduce Customer Minutes Lost
- Investment of £80m in the network in line with the RP6 price control
- Replacement of 28,500 meters under the meter recertification programme
- Operating profit of £129.7m and profit after tax of £63.4m
- Over £142m contributed to the Northern Ireland economy through employment of circa 1,200 people and payments to local businesses and authorities
- Actively engaged with NI stakeholders on the development of a future energy framework for Northern Ireland

GROUP STRATEGIC REPORT

The directors present their annual report and financial statements for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (the Group) for the year ended 31 December 2020.

The Board of directors of the Company who served during the year are outlined in the Group Directors' Report on page 29.

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

The Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

The financial statements of the Group and the Company have been prepared under the historical cost convention, as modified by the revaluation of financial derivative instruments at fair value through profit or loss.

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

NIE Networks is the owner of the transmission and distribution networks in Northern Ireland and the distribution network operator. SONI Limited (SONI), a separate company owned by EirGrid plc, is the transmission system operator and is responsible for transmission system design and planning. 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 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 market settlement.

NIE Networks is a regulated company and its business activities are regulated by the Northern Ireland Authority for Utility Regulation (the Utility Regulator or the UR). Under its Transmission and Distribution licences NIE Networks is required to develop, maintain and, in the case of the distribution system, operate an efficient, co-ordinated and economical system of:

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

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

NIE Networks manages the assets of the transmission and distribution networks on an integrated basis.

The transmission and distribution networks comprise a number of interconnected networks of overhead lines and underground cables which are used for the transfer of electricity to around 895,000 consumers via a number of substations. This network ensures that electricity produced by generators is delivered to consumers through their nominated supplier. NIE Networks does not generate, buy or sell electricity, or send any bills to electricity consumers (apart from charges for new or upgraded connections to the network).

During the year an estimated 7.4TWh of electricity was transmitted and distributed to consumers in Northern Ireland. There are 2,200km of transmission network, 47,000km of distribution network and over 300 major substations. NIE Networks' transmission system is connected to that of RoI through a 275kV interconnector and to that in Scotland via the Moyle Interconnector. There are also two standby 110kV connections to RoI.

In addition to its core network activities, NIE Networks provides meters to consumers 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 Registration and Change of Supplier processes facilitate consumers 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 Group also provides connections to the network for customers requiring a new electricity supply (demand connections) and those seeking to generate electricity (generation connections). The market for new connections has been fully open to competition since March 2018. For 'contestable' elements of connections, customers can choose whether to accept a quotation from NIE Networks or to engage an accredited Independent Connection Provider (ICP) to design and construct the connection.

Revenues

The Group derives its revenue principally through charges for use of the distribution system and Public Service Obligation (PSO) charges levied on electricity suppliers as well as 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 NIE Networks' Statement of Connection Charges, which is reviewed by the Utility Regulator at least annually to approve the charging methodology.

Price controls

NIE Networks is subject to periodic reviews in respect of the prices it may charge for use of the transmission and distribution networks in Northern Ireland. Regulatory Period 6 (RP6) commenced on 1 October 2017 and will apply for the period to 31 March 2024.

The RP6 price control sets ex-ante allowances of £745 million for capital investment and £487 million in respect of operating costs (stated at 2020-21 prices). Additional allowances in respect of major transmission load growth projects will be considered on a case-by-case basis, for example, the North-South Interconnector. The allowances will be adjusted to reflect 50% of the difference between the allowances and actual costs incurred. NIE Networks' Connections business is largely outside the scope of the RP6 price control following the introduction of contestability as referred to above.

The RP6 baseline rate of return of 3.14% plus inflation (weighted average cost of capital based on pre-tax cost of debt and post-tax cost of equity) will be adjusted to reflect the cost of new debt raised in RP6. This mechanism is new for RP6, departing from the former approach of setting an ex-ante allowance, and will align the cost of debt component of the return more closely with prevailing market conditions at the time of drawdown of new debt.

Strategy

NIE Networks' strategic direction is determined by obligations under its Transmission and Distribution licences as well as a commitment to the development of a low carbon energy framework for Northern Ireland. Its vision of 'Delivering a Sustainable Energy System for All' sets the specific goal NIE Networks aspires to in the future, providing direction for the Company within the changing external landscape in which it operates. NIE Networks' values, which were refined and simplified in the year, are being Safety-, People-, Customer-, Commercially- and Future-focussed.

NIE Networks' Purpose aligns with ESB Group's Purpose 'to create a brighter future for the customers and communities we serve and will do this by leading the transition to a reliable, affordable, low carbon economy.'

NIE Networks' strategic objectives are:

- the health and safety of employees, contractors and the general public;
- enabling Northern Ireland's transition to an effective, sustainable and affordable low carbon energy system;
- strong customer service performance by providing a reliable and effective electricity service for Northern Ireland and an excellent experience for customers engaging with the business;

- continued investment in Northern Ireland's electricity infrastructure to: replace worn assets; facilitate increased customer demand; improve the reliability of the network; and facilitate the connection of further renewable generation;
- performance through people by ensuring a working environment that maximises the potential of employees;
- delivery of better performance for stakeholders through a competitive and transparent cost base;
- maintenance of a strong investment grade credit rating; and
- effective stakeholder engagement.

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

Covid-19 response

2020 saw a significant impact on NIE Networks' operations from the Covid-19 pandemic, with NIE Networks' Crisis Management Team and Executive Committee co-ordinating the response and implementing the business continuity and emergency response plans.

At the onset of the pandemic in Q1 2020, the Company identified three main priorities:

- protect the safety, health and wellbeing of our employees and customers;
- maintain a reliable electricity supply to our customers across Northern Ireland; and
- protect our business to safeguard employment and enable a successful return to normal operations.

In response to Government restrictions in March, the Company ceased all non-essential works on the network for a number of weeks and made arrangements for the majority of office-based staff to work from home. The Company maintained critical operations during the most significant Covid-19 restrictions and updated its standard operating procedures and adapted its work sites to facilitate the safety of all staff whether working at field sites, NIE Networks' premises or at home. Since that point, the Company has updated its procedures in line with public health guidelines and continues to adapt its activities to deliver on the priorities noted above. As a result, the Company continued to support its customers by providing a reliable electricity service and continues to do so as the impacts of Covid-19 persist.

This annual report and financial statements reflect the financial impact of the pandemic for the period to 31 December 2020. Management continues to monitor the ongoing impact of the pandemic and has taken steps to mitigate the operational and financial impacts on the Company. It is evident that the pandemic will continue to impact NIE Networks, all of its customers and the wider economy through 2021 and potentially beyond. The steps taken by the Company and its staff in adapting its working environments to deal with the challenges posed by Covid-19 have ensured that the Company will be able to deliver work programmes and maintain a reliable electricity service to its customers for the foreseeable future.

Throughout the duration of Covid-19, the commitment and resilience displayed by the Company's staff has been exemplary. Employees have responded to all the challenges posed with real dedication, supporting their communities and customers and ensuring that the priorities identified at the start of the pandemic have been addressed. The strong performance of the business in adapting to the Covid-19 challenge has been testament to their performance.

Financial Review

Financial Key Performance Indicators (KPIs)

Operating Profit

The Group's operating profit as reported in the financial statements was £129.7m for the year to 31 December 2020, an increase of £19.4m on the previous year. Group revenue of £302.2m has increased by £25.9m reflecting a £17.6m increase in Distribution Use of System revenue, primarily reflecting an increase in the Group's investment in its Regulated Asset Base, and an increase in revenues associated with the Public Service Obligation (PSO) of £7.0m. Group operating costs of £172.5m have increased by £6.5m, predominantly due to additional operational costs and restrictions on capital programmes of works which led to higher net payroll costs being charged to the Income Statement, as a result of the Covid-19 pandemic.

PSO revenue allows NIE Networks to recover the net cost of supporting industry programmes such as the Northern Ireland Sustainable Energy Programme. PSO revenue is earned over time in line with the use of system by suppliers under the schedule of entitlement set by the Utility Regulator for each tariff period. Over time PSO, related income and costs net to nil, albeit there are timing differences between the receipt of revenue and payment of costs. The net PSO income included in operating profit in the current period is £5.3m (2019: net expense of £3.9m).

Tax Charge
In March 2020 the Government announced that future Corporation Tax rates would be retained at 19% rather than reducing to 17% on 1 April 2020 as previously planned. The effect of the increase in the expected future Corporation Tax rate has resulted in a one-off charge to the Income Statement and a corresponding increase in the associated deferred tax liability of £11.7m.

FFO Interest Cover
The Group considers the ratio of FFO (funds from operations) to interest paid to be one of the key internal measures of the Group’s financial health. FFO interest cover indicates the Group’s ability to fund interest payments from cash flows generated by operations and is a measure used by external reference agencies when assessing the Group’s credit rating. The ratio, as shown in note 6 to the financial statements, at 5.2 times for the year (2019 – 4.6 times) is above the target level of 3.0 times. FFO Interest Cover at 31 December 2019 has been restated to align with credit rating agency methodology.

Net Assets
The Group’s net assets of £425.0m increased by £34.3m on the previous year reflecting profit after tax of £63.4m and the impact of changes in deferred tax rates on the opening net pension deficit of £3.3m, offset by in-year re-measurement losses (net of tax) of £14.4m on net pension scheme liabilities, and a dividend paid to the shareholder during the year of £18.0m.

Cash Flow
Cash and cash equivalents increased by £12.5m during the year reflecting net cash flows from operating activities of £135.3m, offset by investing activity out flows of £96.9m (reflecting the Group’s continued investment in the network), the dividend paid of £18.0m, repayment of £2.9m of lease liabilities and repayment of the Group’s Revolving Credit Facility (RCF) of £5.0m.

Net cash flows generated from operating activities of £135.3m are £21.0m higher than the £114.3m generated during 2019 reflecting the Group’s increased operating profit during the year together with lower interest payments and a smaller movement in working capital requirements between 2019 and 2020.

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 23 to the financial statements.

The Group’s debt finance at the year end comprised bonds of £350.0m and £400.0m (£348.6m and £399.0m respectively net of issue costs) which are due to mature in October 2025 and June 2026 respectively. The Group has access to a £200.0m RCF from ESB, none of which was drawn down at the year end. The RCF is due to mature in December 2023.

The Group's liquidity risk is assessed through the preparation of cash flow forecasts. The Group’s policy is to have sufficient funds in place to meet funding requirements for the next 12 to 18 months.

The Group's policy in relation to equity is to finance equity dividends from accumulated profits. In relation to debt finance, the Group's policy is to maintain a prudent level of gearing.

NIE Networks’ 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 Group's assets and the payment of dividends. The Group is in compliance with these conditions.

The Group maintained its strong investment grade credit rating from Standard & Poor’s during the year.

Interest Rate Risk
The £350.0m and £400.0m bonds are denominated in sterling and carry fixed interest rates of 2.500% and 6.375% respectively.

Given that 100% of the Group's total borrowings at December 2020 carry a fixed interest rate, the Group does not consider that it is significantly exposed to interest rate risk.

Since December 2010, NIE Networks has held a £550m portfolio of RPI linked interest rate swaps (the RPI swaps). The RPI swaps were put in place by the Viridian Group (the Group's previous parent undertaking) in 2006 to better match NIE Networks' debt and related interest payments with its inflation-linked regulated assets and associated revenue – in the nature of economic hedge. As part of the acquisition of NIE Networks by ESB in 2010, the swaps were novated to NIE Networks.

Following a restructuring in 2014, the swaps have a mandatory break period in 2022. At the same time that the restructuring took effect, and in order to achieve a back to back matching arrangement, the Company entered into RPI linked interest rate swaps with ESBNI Limited (ESBNI), the immediate parent undertaking of the Company, which have identical matching terms to the restructured swaps. The back to back matching swaps with ESBNI ensure that there is no net effect on the financial statements of the Company and that any risk to financial exposure is borne by ESBNI. Further details of the swaps, including fair values, are disclosed in note 18 to the financial statements.

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	**2020** **£m**	2019 £m
Cash and cash equivalents	**21.5**	9.0
Trade and other receivables (excluding prepayments and accrued income)	**53.8**	49.7
Other financial assets – current and non-current	**532.0**	506.6
	607.3	565.3

The Group's credit risk in respect of trade receivables from licensed electricity suppliers is mitigated by appropriate policies with security received in the form of cash deposits, letters of credit or parent company guarantees. With the exception of certain public bodies, payments in relation to new connections or alterations are received in advance of the work being carried out. Payments received on account are disclosed in note 16 to the financial statements.

Other financial assets comprise RPI linked interest rate swap arrangements entered into with ESBNI, a wholly owned subsidiary of ESB, as outlined above. The counterparty risk from ESBNI is not considered significant given ESB's investment in the Group 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 financial statements.

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 not less than 12 months from the date of approval of the financial statements along with potential downside sensitivities, the directors have a reasonable expectation that the Group will have adequate financial resources for the 12-month period. While the Covid-19 pandemic continues to impact on both the Group and the wider economy, the directors have considered the possible financial impact on the Group's financial position and are of the opinion that the Group has adequate financial resources for the 12-month period. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

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 Group seeks to make a positive impact on the communities in which it operates.

As NIE Networks' principal Corporate Social Responsibility (CSR) initiatives in relation to public safety, customer care, educational outreach, community and charitable giving are key objectives and embedded within day-to-day activities, progress on each during 2020 is reported within the Operational Review.

Operational Review

Operational KPIs

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

KPIs – Year to 31 December	**2020**	2019
Health & Safety:		
Fatality	**1**	-
Lost time incidents *(number of)*	**2**	3
Network Performance:		
Customer Minutes Lost (CML)		
• Planned CML *(minutes)*	**33**	45
• Fault CML *(minutes)*	**41**	38
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)*	**2**	2
Connections:		
Customer demand connections completed including non-recoverable alterations *(number of)*	**4,051**	4,100
Sustainability:		
Reduction in non-network carbon emissions	**11.0%**	N/A
Waste recycling rate	**97.2%**	97.9%
Staffing:		
Headcount (at 31 December)	**1,200**	1,216
Absenteeism	**2.86%**	3.27%

Health and Safety

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

The health and safety management system is accredited to ISO 45001 standard and based on best practice guidance from the Health and Safety Executive Northern Ireland (HSENI) and the Institute of Directors. NIE Networks continues to engage with various organisations including the HSENI, the NI Utilities Safety Group, the NI Roads Authority and Utility Committees, the NI Environment Agency (NIEA), various Energy Networks Association (ENA) health and safety committees, and the ESB Group, to share information and improve safety performance and learning.

Regrettably, all of NIE Networks suffered a terrible loss on 19 August 2020 with the death of one of our colleagues, Richard Scott, a plant maintenance electrician, while working at Drumnakelly Main Substation in Portadown. This tragedy has had a huge impact on Richard's family, work colleagues and many friends. The circumstances of the incident are being investigated both by the Health and Safety Executive for Northern Ireland and internally.

The target for lost time incidents continues to be set at zero. In addition to the fatality highlighted above, there were two incidents during the year (2019 - three). One occurred during low voltage operational activity on the network with the other occurring during non-operational training. Each incident has been investigated internally.

As a business, we must all redouble our efforts to ensure that we are implementing and adhering to the highest safety standards, in everything we do. Since these serious incidents, all colleagues across the business have contributed to the review of our safety practices via participation in around 100 focus groups. This feedback and the wider organisation learning from the formal incident investigations have led to the development on an enabling action plan to improve adherence to our safety value, reduce the risk of harm and improve the wellbeing of our staff. The "Safer Together – Our Pathway to Zero Harm" plan is a key priority for NIE Networks in 2021.

Safety Engineers are aligned with organisational structures through a Business Partner relationship which facilitates integration of skills and allows influence and support. During 2020, the Safety Team continued to support all business units with particular focus on the following areas:

- the reporting, analysis and investigation of "near miss" events which is key to reducing harm. The quality of reports continued to improve with an increase in reports detailing "unsafe acts". Each report is analysed by a team of Safety Engineers to ensure consistency and accurate follow-up, enabling further improvements in equipment and operational procedures to be identified and addressed;

- formal incident investigation procedures with monthly reporting to the Health and Safety Management Committee;

- two external ISO audits were completed with zero non-conformances identified;

- an internal audit completed on Health, Safety and Environment Assurance Framework with zero non-conformances identified;

- continued programme of formal safety training for employees and contractors, including safety seminars delivered to all staff to increase risk awareness and perception and the publication of a monthly Safety newsletter;

- a further nine employees attained certificates in Construction Health and Safety from the National Examination Board in Occupational Safety and Health (NEBOSH) bringing the total within the Group to 121 employees;

- over 3,390 site safety inspections completed, the focus of which was to provide coaching and to encourage good site behaviours while ensuring compliance with safety rules. In line with the Leadership and Engagement principles these were completed by a range of staff including Executive Committee members, business unit managers, health and safety engineers and front-line managers;

- continued focus on identifying the causes of road traffic incidents including post-incident driver appraisals and training where required; and

- a programme of health and wellbeing checks, health screening and lifestyle advice was made available to all staff virtually due to restrictions imposed by the Covid-19 pandemic.

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

Due to the Covid-19 pandemic, NIE Networks amended work programmes in line with Government guidance and requirements regarding Essential and Non-Essential Work on a risk-based approach. At an early stage in the pandemic, NIE Networks concentrated on an agreed schedule of work which was deemed essential as it supported NI's critical infrastructure. In agreeing this approach, NIE Networks assessed both the generic and dynamic risks and identified additional control measures and mitigation that would be required. Along with numerous guidance documents, the Group also increased communications around Health and Wellbeing, which included guidance for those working from home.

Electricity provides a vital service for everyone in Northern Ireland, however it is dangerous and NIE Networks aims to continually heighten and improve the awareness of those in the close vicinity of the electricity network. NIE Networks' Public Safety programme addresses the Group's legislative obligations in respect of safety and involves employees from across the Group.

While Covid-19 restrictions prevailed, the Group's Public Safety Campaign was delivered by alternative media during May and June through radio messages, newspaper and associated digital adverts. Delivered through both main stream media and agricultural media, it enabled the targeting of the messages to the relevant sectors with an estimated coverage of c1.3 million. Safety presentations were made to contractors across the industry and to other utilities and their contractors whilst adhering to the Covid-19 protocols.

NIE Networks' "Kidzsafe" programme continued until March 2020 with over 4,200 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 electricity-related injuries when Covid-19 prevented the programme from continuing within the school environment.

NIE Networks continued to work with HSENI, the network operators in Great Britain and other utilities in Northern Ireland to address the dangerous issue of third-party contact, or interference, with our network.

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

Network Performance

The provision of a safe, reliable and responsive electricity service, which endeavours to meet the standards customers expect, is a key priority for NIE Networks.

During 2020, NIE Networks continued to efficiently manage outages required for essential maintenance and development to minimise the occasions and length of time that customers were off supply, which was particularly important with a greater number of customers working from home due to Covid-19 restrictions. 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 average number of planned CML for 2020 was 33 minutes (2019 - 45 minutes), reflecting the RP6 programme of works and how it was impacted by the restrictions on work programmes as a result of Coronavirus regulations. The average number of CML due to faults on the distribution network in 2020 was 41 minutes (2019 - 38 minutes). Each measure is calculated excluding incidences where Severe Weather Exemptions have been applied as agreed with the Utility Regulator.

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, meter readings in the period and prescribed times for responding to customers' voltage complaints. During the year, each of the overall standards was achieved. In 2020 there were no defaults against Guaranteed Standards of Performance for customer service activities delivered (2019 - none). During the year 93.7% (2019 – 94.6%) of electricity supplies were restored within three hours, within the regulatory standard of 87%.

NIE Networks continues to test and confirm the robustness of its emergency response capabilities during severe weather events in order to effectively restore supply to all customers. The significant commitment from staff across the business 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 six occasions where adverse weather caused damage to the network and affected several thousand customers' supplies. On each of these occasions, 100% of affected customers' supplies were restored within 24 hours.

Customer Service and Care

NIE Networks strives to engage with customers professionally and courteously while being respectful of their individual needs.

The focus on reducing the number of complaints from customers continued in 2020 with the number of complaints received being 6% lower than in the previous year. Individual complaints received are analysed and assessed, based on the specific circumstances, to determine whether or not the complaint was avoidable.

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 (Stage 2 Complaints). During the year, two Stage 2 Complaints were taken up by the CCNI on behalf of customers (2019 – two).

NIE Networks has committed to delivering customer service improvements during RP6 as it seeks to meet and exceed ever increasing customer expectations, especially in relation to increased means of engagement with the Company. These improvements are incorporated into the annual Customer Service Action Plan, endorsed by the Board.

The Consumer Engagement Advisory Panel (CEAP), established during the development phase of the RP6 business plan and comprising NIE Networks with the UR, Department for the Economy (DfE) and CCNI, continued to oversee ongoing consultation with customer groups on the delivery of the RP6 programme and priorities leading into the next price control period. A number of stakeholder update and feedback sessions were held focusing on specific areas of our business such as how we engage with businesses, vulnerable customers, how we respond in emergencies, how connections are managed and how the business should be adapting for the future.

Arrangements are in place with ESB Networks, Northern Ireland Water, Openreach Northern Ireland and Phoenix Natural Gas to provide mutual support, such as 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 district 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. A Winter readiness communications campaign is in place to ensure homeowners have the utility companies' contact details should they need them.

NIE Networks' medical customer care information service is a priority service for 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. Over 10,000 customers are registered for the service. During the initial 'lockdown' period around 80% of customers on the medical care register were contacted to provide assurance concerning their electricity supply and other support.

NIE Networks works with electricity suppliers to offer a Password scheme to reassure customers that the employee visiting their home or premises is a genuine caller, whereby a pre-agreed password is delivered to the customer before the employee is allowed to enter a property. In addition, NIE Networks is a member of the PSNI Quick Check 101 scheme.

NIE Networks is in the third year of a three-year partnership with the NOW Group, the social enterprise that supports people with learning difficulties and autism into employment, on its JAM Card initiative. JAM stands for Just A Minute and is a card originally designed as a way for people with communications difficulties to ask for some more time to complete their activities. Over 90% of NIE Networks' employees are 'JAM friendly' having undertaken NOW Group's training.

During the year, NIE Networks has been developing its Vulnerable Customer Strategy and it is planned to launch this strategy during 2021. This strategy will focus on household customers who are critically dependent on electrically powered equipment (including life-protecting devices, technologies to support independent living and medical equipment), or are identified as needing extra support due to the personal characteristics or circumstances.

Connections

NIE Networks' Connections business provides safe, secure, reliable and timely electricity connections to the distribution system within Northern Ireland. Typically, connections work involves: connecting new or additional load, altering the network, or connecting generators to the distribution network. More recently, customers have also expressed interest in connecting energy storage devices and low carbon technologies, such as electric vehicle chargers and electric heat pumps to the network.

Typically, the Connections business connects approximately 9,000 customers each year to the electricity network, powering homes, businesses, farms and connecting renewable and low carbon technologies. The number of new connections completed during the year reduced to 7,661, from 9,501 in 2019 reflecting the impact of Covid-19 restrictions.

The market for new connections has been fully open to competition since March 2018. For 'contestable' elements of connections, customers can choose whether to accept a quotation from NIE Networks or to engage an accredited Independent Connection Provider (ICP) to design and construct the connection. There are a number of accredited ICPs registered to complete the 'contestable' elements of connections in Northern Ireland. ICPs must adhere to NIE

Networks' policies and technical specifications when completing the contestable works. Further information in relation to Competition in Connections for customers and ICPs is available on NIE Networks' website.

During 2020, a Contestability Working Group including representatives from the Utility Regulator, SONI, NIE Networks, ICPs and Lloyds Register Group was reconvened to look at potential changes to activities that are currently deemed contestable and non-contestable within the NI connections market. As part of this review, the Utility Regulator has commenced a consultation process in relation to 'Expanding the Scope of Contestability in Northern Ireland' including a Call for Evidence which was issued in February 2021 and for which responses are due in March 2021.

NIE Networks continues to play a critical role in providing connections for renewable energy sources including connection of two major battery storage projects with a total capacity of 100MW in late 2020. To date, NIE Networks has successfully connected over 20,000 generators providing renewable generation capacity to the network, significantly adding to the available market capacity and resulting in approximately 1.7GW of renewable capacity now connected to the network. With a further 0.3GW capacity committed to be connected, the total connected renewable capacity is expected to reach circa 2.0GW by 2023. In addition, there continues to be interest from generators to connect potential further renewable capacity to the network. During 2020, over 49% of electricity consumption was produced from renewable sources, which exceeded the long-term target of 40% by 2020.

The renewable future of Northern Ireland is dependent on good partnership and collaboration with industry participants, customers and other stakeholders. NIE Networks continues to work closely with all these stakeholders, including proactively contributing to the DfE's Northern Ireland Energy Strategy 2050.

NIE Networks has continued to actively participate in the Connections Innovation Working Group to consider and progress appropriate solutions which facilitate the connection of further Distributed Energy Resources (DER) in Northern Ireland. Following a joint consultation issued by NIE Networks and SONI in respect of NIE Networks Providing Distribution Generation Offers with Non-Firm Market Access, a Decision Paper was published in February 2021, confirming that NIE Networks will provide non-firm access to distribution generators of 5MW and above.

Electric vehicles and heat pumps have a strategic role in reducing greenhouse gas emissions and are a key component of the transition to a low carbon economy. NIE Networks supports this transition and is investing in its networks to ensure that it can safely and reliably meet the increase in electricity demand required to support these technologies. NIE Networks has updated its website so that customers who have installed, or plan to install, an electrical vehicle charger or a heat pump can submit their notification online in just a few minutes by visiting NIE Networks' website.

As part of NIE Networks' consultation during 2019 in relation to 'Greater Access to the Distribution Network in Northern Ireland', a requirement was highlighted in respect of the need for quicker timescales to facilitate battery storage alongside micro generation. In response to this, a new fast track process was developed for these types of connections which now allows customers to apply online and to submit commissioning and test results through an online portal.

During the year, the Connections business has also continued to deliver the outputs specified in NIE Networks' business plan, including strengthening customer service and account management for project developers seeking connections to the electricity network and ensuring information provided in documentation and online meets the needs of customers.

The Connections business will continue to provide an excellent service to customers connecting to the network whilst facilitating competition in the connections market.

Environment

NIE Networks' Environmental Policy commits to protecting the environment and mitigating the impact of its activities on the environment. NIE Networks is also committed to aligning its business with social objectives and supporting local environmental organisations to protect and improve the environment in Northern Ireland. The environmental management system is certified to ISO 14001 and is designed to ensure compliance with all relevant legislative, regulatory requirements and to promote continual improvement. NIE Networks seeks to be an industry leader, developing standards and best practice solutions where possible.

The annual environmental business plan sets out detailed steps to ensure the achievement of the key objectives of: minimising the risks of air and water pollution and land contamination; minimising the impact on local communities; enhancing energy and resource consumption efficiency and waste management practices whilst ensuring appropriate overall environmental management.

During 2020 the Company continued to focus on each of the following areas:

- 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% (2019 – 98%);
- managing environmental incidents and ensuring clean up procedures are followed where environmental incidents occur; and
- a continued reduction in energy usage across operational sites.

Two external audits of ISO 14001 were completed with zero non-conformances identified.

To support its environmental programme, ISO 14001 targets and continual improvement of its management system, NIE Networks has developed a number of key partnerships with local bodies including Ulster Wildlife, The Conservation Volunteers and RSPB NI. As part of these partnerships NIE Networks has worked to develop employee understanding of wildlife they may come across in their day-to-day duties, facilitated tree planting sessions across the province and continued to develop a programme to help reduce its single use plastic consumption.

NIE Networks is one of only 22 companies in Northern Ireland to achieve the top level “platinum” award in Northern Ireland's Environmental Benchmarking Survey. This survey recognises those organisations that go above and beyond their legal requirements to improve their environmental impacts and better manage their resources. NIE Networks was also named as a Business in the Community Responsible Business Champion in the Environmental Leadership category. This award recognises significant commitment and contribution to environmental sustainability in Northern Ireland.

Network Investment

In 2020 NIE Networks invested a total of £80.1m (2019 - £93.9m) (net of customer contributions) in the transmission and distribution networks. This investment was primarily related to the refurbishment and replacement of aged transmission and distribution assets to maintain reliability of supply and ensure the safety of the network. The reduction in investment from the prior year primarily reflects the impact of the Covid-19 pandemic on work programmes particularly during Q2 when the first national lockdown was in place. During this time works were scaled back until risk assessments could be completed to permit the development and implementation of safe working practices taking account of revised Government guidelines on working safely while respecting Covid-19 requirements.

Notwithstanding the impact of the unprecedented pandemic, almost 1,300km of transmission and distribution overhead lines were addressed as part of an ongoing refurbishment programme during the year. In addition, tree cutting, which is an essential programme of work to maintain the networks’ resilience to storm conditions and reduce network fault rates, was performed across 7,100km of overhead lines.

Significant volumes of asset replacements were also delivered on underground and substation assets totalling 4,500 units during the year.

Substantial progress was also made in delivering the ongoing Electricity Safety, Quality & Continuity Regulations (ESQCR) programme of work to improve the safety of equipment on the network. Following a risk assessment, permanent solutions were put in place at 76 locations with significant volumes of signs, stays and clearances delivered against planned programmes.

Other key investments included the completion of pre-construction works on the Coolkeeragh – Magherafelt 275kV double circuit tower line which is a key strategic supply to the North West of Northern Ireland. This will allow construction works necessary to refurbish the line to commence in 2021.

During 2020, NIE Networks continued to make progress in its transition from a Distribution Network Operator (DNO) to a Distribution System Operator (DSO). This included the continued progression of six innovation projects with the objective of developing cost-effective alternatives to conventional network investment while maintaining system capacity and capability. Moreover, a number of DSO transition related requests were made to the Utility Regulator under the RP6 re-opener mechanism, associated with managing the uptake of low carbon technologies, increasing network monitoring and enhancing control systems.

Market Services

NIE Networks continued to achieve full compliance with its regulatory obligations in respect of customer appointments for metering work. In addition, each year approximately three million visits are made to customer properties to take meter readings to ensure that electricity consumption is calculated accurately, thereby minimising the number of estimated bills issued by electricity suppliers. Although the number of visits to customer properties during the year understandably reduced as a result of Covid-19 restrictions, additional interventions (including increased use of online and mobile text messaging for customers to submit meter readings) were introduced to try to ensure that meter reading levels met the required standard.

NIE Networks has certain obligations under the Trading and Settlement Code to provide aggregated meter data for the purposes of settlement of the wholesale Integrated Single Electricity Market and continued to be compliant with these obligations throughout 2020 with the exception of one technical default.

A major programme to replace meters that have reached the end of their life cycle continued during 2020 with the replacement of approximately 28,500 meters. Approximately 40% of customers meters have now been replaced since this programme commenced in 2015.

Sustainability

As a Distribution Network Operator and Transmission Asset Owner, NIE Networks plays a key facilitating role in decarbonisation and has the opportunity and capability to directly affect carbon emissions in Northern Ireland. NIE Networks is paving the way to a decarbonised economy by promoting and facilitating the connection of renewable generation and low carbon technologies as well as operating the distribution system in a more dynamic, flexible and economic manner while maintaining high safety standards alongside security and reliability of supply.

NIE Networks is committed to ensuring its business has a minimal or positive impact on the local and global environment, community, society and economy. The Group's commitment to the European Distribution System Operators Sustainable Grid Charter underscores its intentions in this regard and also its commitment to addressing climate change and its wider societal impacts. Against this context, and in line with statutory reporting requirements, NIE Networks aims to demonstrate its commitment to managing its business activities in a more sustainable manner and take steps to reduce its Carbon Footprint. As such the Group's Sustainability Action Plan, launched in November 2020 and endorsed by the NIE Networks Board, is influenced by moral, legal and economic responsibilities and will be essential in securing a low carbon future. At the heart of the delivery of this action plan is creating personal accountability of employees through a behavioural change programme with monthly company-wide communications on the topic.

Progress against energy and carbon reduction targets is provided in more detail as part of the Streamlined Energy and Carbon Reporting (SECR) statement on pages 36 - 37.

Business Carbon Footprint
NIE Networks' business carbon footprint is a measure of the impact that its operational activities have on the environment. NIE Networks reports its business carbon footprint in tonnes of carbon dioxide equivalent 'tCO2e' per employee.

The Group's reported business related emissions have reduced by 11% during the year. This is largely due to the restrictions associated with the Covid-19 pandemic, resulting in short-term stand-down of some operational activities and increased working from home. Further details on carbon emissions are included as part of SECR statement on pages 36 - 37.

Buildings Energy Use
NIE Networks operates an aged office building stock and has made significant concerted efforts to reduce energy consumption over recent years.

Following a number of energy performance improvement initiatives across the office building portfolio there has been, on average, a 13% reduction in electricity consumption over the last five years. In 2020 there was a 6% reduction in electricity and 9% reduction in gas consumption compared with 2019. While Covid-19 restrictions did reduce office occupation (and thus electricity and gas consumption), all of the Company's office buildings remained open during the Covid-19 pandemic to support NIE Networks' activities as an Essential Service Provider.

There are a number of upcoming office building refurbishment and replacement projects that will contribute to our carbon reduction targets in future years. Our Dargan office in Belfast will undergo a significant refurbishment in 2021 which will deliver a major energy performance enhancement during.

Fuel Usage and Business Travel
After a long-term initiative to reduce the fuel usage of NIE Networks' fleet vehicles, we continue to strive to maintain this usage at the lowest possible level whilst meeting the operational needs of the business. During 2021 NIE Networks will introduce the first electric vehicles to its fleet, which will reduce the future carbon impact in this area.

Following a number of reviews into fleet efficiency, NIE Networks has seen fleet fuel reduce consumption by over 9% in the last five years. Additionally, the Group rolled out a new vehicle tracking system during 2020, which will provide more information to help inform sustainable driving going forward. The data from this new vehicle tracking system will be used to help identify the first vehicles suitable for transition to an electric equivalent.

As part of the Company's response to the restrictions associated with the Covid-19 pandemic, some teams were temporarily stood down in 2020 during the months of March to May. Following implementation of additional safe working practices many of these teams were able to return to work due to 28 new temporary vehicles being added to the fleet in June to facilitate social distancing. The net impact of these changes saw a reduction in fuel consumption by fleet vehicles of almost 7% during the year.

NIE Networks has reduced non-operational business mileage during 2020 by almost 32% compared to the previous year primarily due to increased working from home by employees. NIE Networks plans to maintain a level of agile working from home in the future along with minimising inter-location travel by maximising the use of video conferencing and collaborative working technologies, which is expected to contribute to an enduring reduction in business mileage.

Consumption of bottled gas in the form of Liquefied Petroleum Gas (LPG) (used in operational activities such as underground cable jointing) decreased by 12% during 2020, primarily due to the temporary stand down of some teams during the March to May period.

People

Central to NIE Networks' people strategy is to recruit, develop and train and retain highly skilled employees for core strategic activities, working in partnership with bought-in-services as appropriate. This ensures that knowledge and skills are retained, allows greater agility and flexibility to redeploy employees where needed, and builds a strong culture of engaged employees motivated to deliver business objectives. Having this agility and flexibility during 2020 has been essential in dealing with the Covid-19 pandemic, allowing employees to operate effectively while also responding positively to the challenges and opportunities for employees at all levels.

Against the challenges of delivering the outputs required in the RP6 price control within the allowances set, management has continued to focus on cost reduction by challenging resourcing across the business while also recognising the need to ensure the business has the appropriate skills for its current challenges and the future. This has created upskilling and development opportunities for employees by increasing their responsibilities and also offering opportunities for retraining.

The number of employees at the end of 2020 was 1,200 (2019 – 1,216).

Training and Development
NIE Networks seeks to attract, develop and retain highly skilled people through its award-winning apprenticeship programme, as well as graduate, apprentice-to-graduate and scholarship programmes. Our 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. During 2020 NIE Networks has been exploring the opportunities of higher level apprenticeships as a way to attract people from a wider external pool into roles the organisation finds more difficult to recruit.

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 Covid-19 pandemic created a number of initial difficulties for training delivery but it also created opportunities to redesign a number of programmes, enabling them to be delivered digitally to ensure a strong focus on development continued during the year. A high percentage of employees were involved in a variety of training and development initiatives which included leadership skills programmes, support programmes for formal qualifications, role enhancement, role changes, team development initiatives, coaching and mentoring. In addition, all of the Leadership team completed a 360 degree feedback process which has resulted in each participant having a personal development action plan to progress during 2021.

NIE Networks continues to promote the professional development of engineers through the Institution of Engineering and Technology (IET) Professional Registration Scheme and encourages and supports more employees to become IET members and Chartered Engineers. During 2020, five engineers achieved IET professional membership at varying levels.

Equality and Diversity

NIE Networks is proactive in implementing and reviewing human resource policies and procedures to ensure compliance with all relevant legislation. NIE Networks is committed to providing equality of opportunity for all employees and job applicants with ongoing monitoring to ensure that equality of opportunity is provided in all employment practices. Outreach initiatives are used to actively seek female applications in male dominated job roles. NIE Networks successfully retained the Bronze Diversity Charter Mark during 2020, in recognition of the many initiatives in place in the business to support gender diversity.

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

Sickness Absence

The proactive management of absenteeism is to the mutual benefit of the organisation and its employees. A health and wellbeing policy is in place covering areas such as stress management, mental health, alcohol and drug-related problems and support to stop smoking. External occupational health and counselling services are available for all employees.

The Health and Wellbeing Forum and champions across the business rolled out various initiatives during the year to provide additional guidance and support to enable employees to proactively manage their own health and wellbeing. These programmes were adapted to be delivered virtually to ensure accessibility to the relevant guidance and training for all employees during the Covid-19 pandemic. Sickness absence during the year was 2.57% (excluding Covid-19 related absences) a decrease of 0.70% from the previous year. The figure including Covid-19 related absences was 2.86%.

Employee Engagement

NIE Networks places considerable emphasis on its employee participation and engagement processes which are well embedded in the Company's culture. The Employee Engagement Board, comprising members representing each employee location and chaired by the Human Resources (HR) Director, meets bi-monthly. To ensure that strong engagement links were maintained with employees during challenging times in 2020, meetings were facilitated both virtually and face-to-face where appropriate measures could be put in place in line with government guidance. The Managing Director and non-executive members of the Board attended a number of the meetings. The focus in 2020 was participative group work, idea sharing and two way feedback in relation to the Company's response to Covid-19, its approach to safety and a review of the Vision and Values. In addition, meetings included updates on key areas of the business. Separate engagement groups operate at each main staff location ensuring local discussion and information sharing. Through this process, matters are identified for improvement and followed through either by management or with employees via a wide variety of participative working groups.

Separate company-wide working groups and forums focus on specific issues/problems or ideas generation, including Health & Wellbeing, Digital Strategy, Innovation and Pensions to drive improvements for both the business and employees. As a large proportion of the workforce are field based and working on the network across NI, meetings take place regularly at depots to ensure that all of these employees have an opportunity to raise issues directly with management.

Two separate Employee Relations Forums, comprising management and the relevant trade union representatives, continued to meet to progress a wide range of employee relations issues. More formal negotiating committees, chaired by the HR Director are held regularly and are attended by management, the respective full-time union official and trade union representatives to discuss more complex issues including terms and conditions and pay. The Executive Committee holds workshops with the senior management group of around 50 managers at least biannually to consider performance and new developments and plans.

The formal monthly employee briefing process is the key process to ensure that all employees are kept up to date on matters of concern to them, both as employees and on Company developments generally. All employees can attend a session with line management at their local workplace or virtually, and can also access the material via the Company's intranet. Ordinarily, all employees would have the opportunity to attend presentations by the Managing Director, with other members of the Executive Committee, at least annually discussing business performance, planned developments and longer-term strategy. Additionally, new employees would participate in a formal induction programme including meeting with senior management. Given the restrictions imposed by the pandemic, a range of virtual sessions and video messages from the Managing Director were used in place of face-to-face meetings.

The annual business plan setting out corporate objectives is briefed to employees early in the year. This includes a number of performance targets for the Company, the outcome of which determines an element of annual pay award for employees across the business and an element of annual performance bonus for those participating in the annual bonus scheme. Monthly updates on the Company's performance against these targets are provided to all employees.

Work Experience and Educational Outreach
NIE Networks is conscious of the ongoing 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 at GSCE and 'A' level, the electricity industry continues to face significant skills shortages. NIE Networks therefore continued to engage proactively with students to consider engineering as a career, through a wide range of educational outreach initiatives including:

- links, either face to face or virtually with over 50 schools, the majority of further educational colleges and the two universities in NI to promote opportunities to study Science, Technology, Engineering and Maths (STEM) subjects;

- offering four further scholarships to students studying either Electrical & Electronic Engineering or Software and Electronic Systems Engineering at Queen's University Belfast taking the total number of NIE Networks' scholarship students to 20. In addition, NIE Networks has one employee participating in our Apprentice to Graduate scheme; and two past apprentices who were sponsored through their degree programmes have returned to the business in graduate engineering positions;

- offering an industrial placement opportunity for a Geography undergraduate to obtain a Diploma in Professional Practice;

- working in partnership with Woman in Science and Engineering (WISE) as they launch a WISE NI hub to address the lack of girls taking up STEM careers in NI;

- providing mentors to three grammar schools as part of Sentinus R&D Programme, enabling students to work with companies on research and development, design, management and marketing; and

- providing support in partnership with a school under the Royal Society Partnership Grant to carry out investigative STEM research projects.

NIE Networks remains committed for the fifth year to being the main sponsor of "Skills NI" 2020, a two-day careers event in Northern Ireland for 14-19 year olds connecting young people with job, career and skills opportunities across Northern Ireland which has been postponed to Autumn 2021 due to the Covid-19 pandemic.

Community Initiatives
NIE Networks continues to be a member of Business in the Community (BiTC). Throughout 2020, employees served on the boards of 13 local voluntary, community and social enterprise organisations.

During 2020, employees raised over £25,000 for Air Ambulance NI and commenced fund raising for Public Initiative for Prevention of Suicide (PIPS) as NIE Networks' charity of the year, nominated by employees through the engagement process.

Charitable giving by employees is promoted through the Staff and Pensioners' Charity Fund, to which the Company contributed £10,000 during the year. In 2020 the Charity Fund donated £50,000 to local charities.

During the Covid-19 pandemic the positive impact made by NIE Networks employees extended to many local neighbourhoods and communities. Employees – on their own initiative in many cases – supported community initiatives by volunteering to make face visors, hand sewing scrubs, delivering prescriptions and groceries to elderly neighbours, proactively calling vulnerable customers on NIE Networks' medical care register and undertaking a wide range of other fundraising activities.

Looking Forward

Key priorities for 2021:

- implementation of the 'Safer Together – Our Pathway to Zero Harm' Plan together with the ongoing management of the risks to Safety, Health and Wellbeing;

- Covid-19 response and recovery;

- ongoing focus on delivery against RP6 price control allowances and outputs while maintaining a safe and secure network;

- delivering a Customer Service Action Plan that will drive further improvement in customer service and development of a customer centric culture;
- competing successfully in the open connections market;
- providing effective employee engagement across the business;
- maintaining a strong investment grade credit rating;
- contributing to the development of a new energy strategy for NI; and
- preparing the network for a low carbon future.

Stakeholder Engagement and Section 172(1) statement

This section describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 in performing their duties during 2020 and forms the directors' statement required under the Companies (Miscellaneous Reporting) Regulations 2018.

Strategy and long-term decision making

NIE Networks' strategic objectives as detailed on pages 5 – 6 of the Group Strategic Report reflect that the Board is focussed on promoting the success of the business by delivering customer focused performance in a manner that is environmentally sustainable, provides long term stability and meets the needs of its key stakeholders.

As part of the Board's role it seeks to ensure that it is cognisant of the long-term impact of any decisions. To that end, the Board periodically reviews the Company's strategy and regularly seeks updates on strategic issues which may impact the business. Additionally, the Board requires management to prepare annually a Business Plan for the following year, including five year projections and funding requirements, as well as completing a review of business risks, both principal and emerging. In that context, any matters presented to the Board for approval need to align with the Company's strategy and Business Plan.

NIE Networks creates value for the shareholder by delivering strong and sustainable results. NIE Networks' Managing Director and Finance & Regulation Director engage with senior executives at ESB each quarter to provide updates on NIE Networks' performance against the annual business plan, governance matters and on other key developments. Engagement with ESB is consistent and compliant with NIE Networks' regulatory conditions and the Compliance Plan with respect to NIE Networks' independence within the ESB Group.

In responding to the Covid-19 crisis during the year the directors considered the long-term impact of the pandemic on the Company's operations as well as the efficacy of the shorter term decisions taken to respond to public health guidelines. The directors have considered plans to address strategic issues arising from the impact of the pandemic over the short, medium and longer term and the Board will monitor progress against those plans.

Employees

Ensuring the health, safety and wellbeing of employees is the number one value at the core of NIE Networks' business operations, with the aim to provide a zero-harm working environment. The Health & Safety section of the Operational Review provides detail on how the Company sought to achieve this during 2020. The Board approves the annual Health, Safety and Wellbeing Plan and considers updates on progress against the plan at each meeting. The Board considers and approves annually the Health and Safety Policy and Health and Safety Management System.

From March onwards the Board considered regular updates on management's response to the Covid-19 pandemic to ensure that the health and safety of employees were protected: with appropriate Covid secure measures in place for those employees required to work providing essential works on the network; alternative works provided for those whose normal functions could not proceed until Covid secure measures were in place and Government restrictions eased; and supports in place to ensure the wellbeing of the employees who were required to work from home. Offices and depots remained open throughout for employees whose roles required attendance at Company locations and for those who were not able to work from home due to personal circumstances. During the period of eased restrictions during the summer and autumn, a phased return was implemented with employees working from the office on a rota basis. The HR Director led the development of an Agile Working from Home Policy to enable future flexibility and smart working for employees following the pandemic. The Company worked in partnership with the trade unions representing employees, Prospect and UNITE, to agree and implement arrangements to protect the health of employees and the general public during the Covid-19 pandemic.

As well as protecting the health and safety of employees during the pandemic the directors sought to protect the resilience of the business to safeguard employment and enable a successful return to normal operations. The Company did not avail of the Government's Coronavirus Job Retention Scheme and no redundancies were made during the year.

Following the tragic death of Richard Scott, an NIE Networks employee, while working on the network in August, and other serious safety incidents during the year, the directors have ensured that thorough internal investigations have been undertaken to understand the causes of these incidents and to ensure that any learning from them can be implemented to support the achievement of zero harm in the future. The Board has considered the findings and recommendations (or interim findings and interim recommendations as appropriate) from these investigations and has also considered the feedback from focus groups, involving all staff, considering safety issues. In order to progress towards our ultimate goal of zero harm at NIE Networks, the Board has endorsed a safety improvement plan for implementation in 2021: "Safer Together – Our Pathway to Zero Harm".

NIE Networks depends on highly trained, skilled and engaged employees to achieve its objectives. The HR Director (an executive director of the Board), oversees the development and implementation of NIE Networks' HR strategies which are considered regularly by the Board. During the year the Board considered developments to ensure greater equality and diversity in the workforce endorsing specific initiatives to drive a positive gender balance and promote a positive and inclusive workplace.

The progressive HR strategies in place for resourcing, training and development, equality and diversity, managing sickness absence, employee engagement including engagement with trade unions and employees' participation in the affairs of NIE Networks are detailed in the People section of the Operational Review.

With most employees being members of the Northern Ireland Electricity Pension Scheme's defined contribution scheme, and with over 4,000 members or pensioners in the scheme's defined benefit section, the Board of trustees of the scheme is a key stakeholder. The Board receives regular updates on the scheme and senior management provide the trustees with regular updates on the Company's performance and other relevant matters. The Board oversees the triennial valuation to ensure that employer contributions match the funding requirements of the defined benefit section of the scheme, with the most recent valuation undertaken as at 31 March 2020 currently being finalised.

Customers

NIE Networks' customers include large electricity users, customers seeking demand or generation connections, business and domestic customers, including those with specific needs, and landowners. These customer groups and their various representative bodies, including The Consumer Council (NI), are key stakeholders with well-established engagement channels in place.

The Board approved the 2020 Customer Service Action Plan to address increased expectations of customers, including responses from customer call backs and surveys. During the year the Board monitored customer service performance, receiving regular information on the average number of minutes customers had no electricity supply, the level of complaints and the number of these taken up by the CCNI on behalf of customers.

Further information on developments in customer service and engagement with customers can be found in the Customer Service and Care and Connections sections of the Operational Review, including details on the focussed engagement with customer representatives to receive feedback on our customer performance during RP6 to date and begin to engage with customers on their priorities for the next price control period. This work is overseen by the Consumer Engagement Advisory Panel (CEAP) comprising the UR, CCNI, DfE and NIE Networks with developments monitored by the Board.

From the outset of the Covid-19 pandemic our priorities were to protect the safety, health and wellbeing of customers, as well as our employees, and to maintain a reliable electricity supply to customers across Northern Ireland. Critical operations were maintained throughout the most significant Covid-19 restrictions to ensure reliable supply, and further works programmes resumed as quickly as possible, with updated standard operating procedures to ensure the safety of customers and employees whilst working on customer premises. From the outset of the crisis directors engaged closely with the Minister and the Department for the Economy (DfE) and the Utility Regulator (UR) to provide assurance, and seek their support where needed, in relation to protecting the reliability of electricity supplies during the pandemic.

Suppliers

The Board recognises the key role suppliers play in ensuring NIE Networks delivers a reliable service to customers: in supplying materials for the network, working on the network as contractors and the provision of essential managed services to the business. From the outset of the pandemic in early 2020 there has been close engagement with contractors, to ensure those required to operate during the pandemic were able to do so safely and viably, and with key service providers to ensure continuity of service and timely implementation of changes required to enable home working. We worked closely with our materials suppliers to ensure additional stocks of key items to mitigate against potential shortages during the pandemic and the end of the Brexit Transition Period.

NIE Networks' procurement practices are governed by the UK Utilities Contract Regulations 2016 (applicable to procurement by UK utilities). The Board ensures that formal contract management arrangements are in place throughout the duration of supplier contracts, including in relation to the management of safety performance for the contractors working on the network. The Board continued to monitor supplier payment practices to ensure ongoing improvement.

Regulators

In addition to suppliers and customers, the Board has identified a number of other key stakeholders. The UR has regulatory oversight over NIE Networks and there are well established formal channels of engagement with the UR at various levels within NIE Networks, overseen by the Managing Director and Finance & Regulation Director, who report on key regulatory issues to each Board meeting, with the Compliance Manager also reporting directly to the Board. All key communications and engagement with the UR are discussed at Board meetings and there is Board level engagement with the UR on specific significant matters.

The DfE has regulatory powers and sets energy policy. Together with senior executives from the UR and SONI, the Managing Director participated in the DfE's Electricity Stakeholders Group throughout 2020, providing input and support to the electricity aspects of the DfE's development of a new energy strategy for Northern Ireland, with the Board being kept updated on progress throughout the year.

The Health and Safety Executive Northern Ireland (HSENI) is a key regulator. The Board seeks to ensure open and transparent engagement between management and the HSENI on ongoing operational health and safety issues, and in relation to investigations undertaken by the HSENI, and the Board considers updates on any health and safety incidents, including those reported to the HSENI, at each meeting. Similarly, the Northern Ireland Environment Agency (NIEA) is a key stakeholder with the Board receiving a report to each meeting on any environmental incidents including any matters reported to the NIEA.

Other key stakeholders

In addition to employees, customers and their representative bodies, suppliers and regulators, other key stakeholders to which NIE Networks directors have regard include government ministers and departments, local political representatives, electricity market participants, including SONI, other utility companies, industry and business representative bodies and bond investors.

Throughout 2020 the directors have engaged with relevant Northern Ireland Executive Ministers, their departments and Assembly Committees on future energy policy and on the impact of Covid-19, and during the latter part of the year on the potential for NIE Networks to support a Green Recovery for Northern Ireland following the Covid-19 pandemic.

Together with other members of the Executive Committee, the Managing Director is involved in engagement with senior executives of SONI on both operational matters and also on the development of potential roadmaps for a decarbonised electricity system enabling a low carbon future for Northern Ireland which was submitted to the DfE at the end of the year.

The Managing Director is a member of the joint utilities group in Northern Ireland providing mutual aid in severe weather incidents impacting on service provision to customers and communities and during the pandemic engaging on maintaining our essential services for customers. The Managing Director and other senior executives engage with local councils and with groups representing industry and business, including representation on relevant committees to ensure the interests of the wider industry and business community are considered in NIE Networks' operations and plans.

The Board is kept updated on engagement with NIE Networks' bond investors and Standard & Poor's credit rating agency which is led by the Finance & Regulation Director.

The Board has endorsed an external stakeholder engagement strategy. The Managing Director oversees the implementation of the strategy and the Board considers regular updates on progress.

Members of the Board and senior management are active participants in the Energy Networks Association, CBI, NI Chamber of Commerce and Industry, Women in Business, the Institute of Directors and the Centre for Competitiveness in Northern Ireland.

Community and environment

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, NIE Networks seeks to make a positive impact on the communities in which it operates.

The Health and Safety section of the Operational Review provides detail on how NIE Networks sought to ensure the safety of the general public in its operations and initiatives taken in raising the public's awareness of the dangers of the electricity network during the year, with particular focus on DIY and farm safety messaging via radio and newspaper during the pandemic. The Network Performance and Customer Service and Care sections of the Operational Review set out the good performance during 2020 in providing a reliable and responsive electricity service, and provides information on services to domestic customers with specific needs. During the strict Covid-19 restrictions in the spring, NIE Networks engaged with local charitable and community organisations and facilitated employees unable to work at their normal roles to support the wider community making face shields for residential homes, delivering essential medical and food supplies and assisting consumers topping up energy prepayment cards.

In the autumn the Board reviewed NIE Networks' preparedness for response to severe weather events and reviewed performance after each significant event. During the year the Board was kept updated on engagement with local communities, including ahead of planned maintenance or refurbishment of the network and large connections work.

Further to the Board's adoption of the E.DSO Sustainable Grid Charter as a statement of intention in relation to NIE Networks' commitment to sustainability in respect of climate change and wider environmental and societal impacts, the Board endorsed a Sustainability Action Plan for 2021 – 2024, targeting an ambitious 12.5% reduction in business carbon footprint from 2019 levels in a phased approach over the four years. Further information is provided in the Sustainability section of the Operational Review. The Board reviewed and approved the Environmental Policy and the 2020 Environmental Business Plan.

Reputation for high standards and business conduct

The Board has approved a Code of Ethics which sets out NIE Networks' approach to responsible and ethical business behaviour with the underlying principle that everyone working for NIE Networks, including the directors, must adhere to the highest standards of integrity, loyalty, fairness and confidentiality, including meeting all legal and regulatory requirements. Specific policies and procedures on the prevention, detection and investigation of fraud, bribery and corruption and modern slavery have been approved by the Board. These arrangements, and NIE Networks' wider risk management, governance and internal control framework align with the standards required by its shareholder, ESB.

How stakeholders' interests have influenced decision making

NIE Networks recognises the importance of engaging with stakeholders to help inform strategy and Board decision-making. Relevant stakeholder interests, including those of employees, customers, suppliers and regulators are taken into account by the Board when it takes decisions. Principal decisions are those which are material, or of strategic importance, to NIE Networks and also those which are significant to any of NIE Networks' key stakeholder groups.

In responding to the Covid-19 pandemic crisis, and the UK Government's guidance in March, the directors considered the health and safety of employees and contractors working on the network and the need to maintain a reliable electricity supply to all our customers across Northern Ireland, at a time when most were based at home with enhanced dependency on electricity, whilst protecting individual customers by not entering premises to undertake works. The interests of employees were considered in senior management's engagement with trade union representatives on a daily basis and that of contractors' staff during senior management's close engagement with individual contractors.

In considering these interests, and our responsibilities, it was decided to cease all but essential operations to maintain electricity supplies, ensure the safety and integrity of the network and critical customer connections. Representatives of the unions worked together with management to develop new operating procedures to ensure the health and safety of employees working on the network during the pandemic, and that of customers and the general public, which enabled the decision to implement a phased resumption of all work programmes thereby ensuring the longer-term resilience of the network for the benefit of customers.

Following the serious safety incidents during the year and with the ultimate objective of achieving zero harm to employees, customers and the general public in our operations, the directors have endorsed a major safety improvement plan, 'Safer Together – Our Pathway to Zero Harm', which will be the most important initiative within NIE Networks during 2021, developed following consideration of views from all employees across the organisation.

Northern Ireland's immediate and longer term environmental and economic interests were considered in the Company's engagement with stakeholders in relation to the ongoing development of a new energy strategy for Northern Ireland, and also in relation to the potential for a Green Recovery, following the Covid-19 pandemic. The Company has worked collaboratively with SONI, DfE, UR and other stakeholders in contributing to energy policy development. The Northern Ireland Executive's medium-term recovery strategy 'Rebuilding A Stronger Economy' recognises that there is a substantial economic recovery opportunity in decarbonising energy as part of growing the green economy across Northern Ireland and has highlighted clean energy as one of the potential areas for growth. NIE Networks has put forward practical proposals that could contribute to creating higher paying jobs; developing a highly skilled and agile workforce; and delivering a more regionally balanced economy to support the delivery of that strategy.

Risk Management

Principal Risks and Uncertainties

The outbreak of the Covid-19 global pandemic during the first quarter of 2020 resulted in the identification of a new principal risk ("Challenges and Risks associated with Covid-19 pandemic and its impacts") through existing risk management processes. NIE Networks' other principal risks remained consistent between 2019 and 2020, although with some movement on the relative ranking of risks and some changes to the key risk drivers. The Board agreed the principal risks and the detailed risk plan following consideration and recommendation by the Audit & Risk Committee. The principal risks and uncertainties that affect the Group along with the main mitigating strategies deployed are outlined on the following pages.

Risk & Risk Description	Mitigating Strategies
HEALTH & SAFETY RISKS	
Health & safety: Exposure of employees, contractors and the general public to risk of injury or harm.	Planned delivery of the 'Safer Together' safety improvement plan. A comprehensive annual Health, Safety and Wellbeing Business Plan approved annually by the NIE Networks Board which sets out detailed targets for the management of health and safety. These targets are continually monitored as part of the Group's ISO 45001 standard safety management framework. Comprehensive safety rules, policies, procedures and guidance reviewed and communicated regularly and compliance monitored on an ongoing basis. A strong focus on the inspection of work sites and the reporting, reviewing and communication of near miss incidents. Ongoing programmes to increase public awareness of the risks and dangers associated with electricity equipment. Ongoing engagement with GB Distribution Network Operators through the ENA in order to share best practice and learning.
REGULATORY RISKS	
Licence compliance: Failure to comply with regulatory licence obligations.	NIE Networks has a dedicated Compliance Manager to monitor compliance with all regulatory licence obligations and to report to the Utility Regulator on regulatory matters. Ongoing programme of education for key staff on regulatory and compliance requirements. Regular engagement with regulatory stakeholders on key matters.

Risk & Risk Description	Mitigating Strategies
FINANCIAL RISKS	
Funding & liquidity: Inability to secure adequate funding at appropriate cost for planned investments in the event that NIE Networks' credit metrics were not maintained within Credit Rating Agency investment grade targets. Exposure to financial counterparty risk.	NIE Networks employs a continuous forecasting and monitoring process to ensure adequate funding is secured on a timely basis. The Group sets its financial plans cognisant of the requirement to ensure adequate funding for its activities and to maintain an investment grade credit rating with rating agencies. Credit risk in respect of receivables from licensed electricity suppliers is mitigated by appropriate policies with security received in the form of cash deposits, letters of credit or parent company guarantees. NIE Networks conducts business only with Board approved counterparties which meet the criteria outlined in the Group's treasury policy. The Group's treasury policy and procedures are reviewed, revised and approved by the Board as appropriate.
Pensions: Increase in the deficit costs or ongoing accrual costs in the defined benefit section of the Northern Ireland Electricity Pension Scheme (NIEPS) ("Focus") not covered by regulatory allowances.	"Focus" has been closed to new entrants since 1998. Since 1998 new members have joined the money purchase section of the NIEPS ("Options"). The NIEPS Trustees employ professional advisers in the management of the Scheme's assets and liabilities. The deficit repair plan was updated in 2018 following the conclusion of the latest triennial review of the deficit as at 31 March 2017. The formal valuation as at 31 March 2020 is currently ongoing.
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.
Connections market share: Risk of reduced income arising from either a reduced market and/or market share arising from contestability in connections.	NIE Networks continuously reviews and analyses connection charges to ensure delivery of value for customers. The Group also actively forecasts market movements to establish the likely impact on the connections business.

Risk & Risk Description	Mitigating Strategies
OPERATIONAL RISKS	
Networks infrastructure failure: Widespread and prolonged failure of the transmission or distribution network.	The risk is minimised through ongoing assessment of the network condition and development of asset management techniques to inform maintenance and replacement strategies and priorities. NIE Networks' asset management practices are certified to ISO 55001, the internationally recognised standard for asset management. The network is strengthened through appropriate investment, a reliability-centred approach to maintenance and a systematic overhead line refurbishment and tree cutting programme. NIE Networks' strategy is to continue to maintain and develop a safe and secure network to meet market demands.
Emergency response: Failing to respond adequately following damage to the electricity network from adverse weather conditions.	System risk assessments are completed regularly and weather forecasts actively monitored daily. There is a comprehensive Emergency Plan and Storm Action Plan in place, each reviewed and tested regularly with emergency simulations carried out at least annually. Duty incident teams provide cover 365 days per year with arrangements in place for access to external utility resources if required.
IT failure: Major failure of IT infrastructure or IT systems arising from a successful cyber attack or non-malicious failure.	Regular review of IT systems and their resilience is carried out by the IT team and its professional advisers. NIE Networks is engaged in an ongoing programme of review and upgrade of IT software and hardware with IT partners. There is a comprehensive process in place through our Managed Service Provider to carry out monitoring of technical performance and reliability of key systems. Disaster Recovery and failover arrangements are documented and tested regularly. IT Security Forum is in place to develop and implement policies and procedures to protect against cyber-attack as well as to ensure delivery of staff awareness training and communication. Governance structures are in place to ensure ongoing compliance with the Network and Information Systems Directive, including ongoing reporting to the Northern Ireland Competent Authority (NIS Regulator for Northern Ireland).
Data loss: Loss of data integrity or breach of Data Protection Act.	The Group's Data Protection Officer, supported by a Data Protection Forum, implements and monitors compliance with data protection policy and procedures. Governance structures are in place throughout the business to ensure compliance with the Data Protection Act 2018. Ongoing data protection training for all staff.

Risk & Risk Description	Mitigating Strategies
PEOPLE RISKS	
Knowledge, skills and succession management: Inadequate resources with the necessary knowledge and skills.	NIE Networks' strategy is to attract, develop and retain highly skilled people through graduate, apprenticeship, trainee and sponsorship programmes to ensure that appropriate resources are in place to meet the Group's regulatory obligations.
Failure to develop and retain staff.	Employee development is a key priority for the Group with continued investment in staff training, skills development and on-going performance improvement. Focused employee development programmes are in place to maximise the potential of staff and ensure adequate succession planning.
COVID-19	
Covid-19: Challenges and risks associated with Covid-19 pandemic and its impacts	There are a series of arrangements identified in the NIE Networks Pandemic Preparedness Plan, Crisis Management Plans and Business Continuity Plans, with particular focus on arrangements for ensuring response efforts are aligned. These plans also identify the controls and supports required to minimise any risk to the safety, health and wellbeing of all NIE Networks' employees and contractors, their families, our customers, and the public at large. Critical employees and alternates for all key processes have been identified and arrangements are in place for those employees to carry out these roles – as well as succession plans in the event of their absence. Established arrangements are in place to ensure that we engage with key stakeholders so that we can deliver our services during Covid-19.

Brexit

A free trade agreement between the UK and the EU was agreed on 24 December 2020 and approved by the UK parliament on 30 December 2020. Although the UK-EU Trade and Cooperation Agreement (TCA) provides for trade without significant tariffs and duties, the NI Protocol, which came into effect from 1 January 2021, means new customs procedures (including additional declarations) for GB/NI trade are required from that date. NIE Networks has taken appropriate steps to comply with the new obligations arising from the implementation of the post-Brexit regime and will continue to monitor and assess the impact of Brexit throughout 2021.

Emerging risks

The risk management framework enables the Group to identify, analyse and manage emerging risks to help identify exposures as early as possible. This is managed as part of the same process to identify principal risks and is reviewed and monitored in conjunction with principal risks.

High Impact Low Probability (HILP) risks

As a provider of critical national infrastructure, NIE Networks is acutely aware of the potential impact of this category of risk for the Group. A full review of HILP risks was undertaken in 2020 and agreed by the Board. The review also considered the impact upon principal risks and mitigating strategies.

Business Continuity

NIE Networks is responsible for the provision of critical infrastructure and disruptions to certain services and operations are potentially damaging to the economy, to society and to NIE Networks' business. The Group has in place a robust set of business continuity plans and processes, including crisis management pandemic plans, to ensure that responses are well managed and executed. The exercising and testing of these plans is key to ensuring NIE Networks' preparedness for a business continuity event.

On behalf of the Board

Paul Stapleton
Managing Director

Northern Ireland Electricity Networks Limited
Registered Office:
120 Malone Road
Belfast BT9 5HT
Registered Number: NI026041
Date: 11 March 2021

BOARD OF DIRECTORS

DAME ROTHA JOHNSTON DBE was appointed as independent non-executive Chair of the Board in March 2020, having been an independent non-executive director since 2011. She is Chairperson of Northern Ireland Screen, a member of KPMG's Northern Ireland Advisory Board, a member of Belfast Harbour Commissioners and a director of QUBIS Ltd and Ulster Garden Villages Ltd. She is a member of the Industrial Strategy Council, an independent body assessing the progress of the UK Government's Industrial Strategy. In the past she has been a BBC Trustee for Northern Ireland and Pro-Chancellor at Queen's University Belfast. In 2016 she was awarded Dame Commander of the Order of the British Empire for services to the Northern Ireland economy and public service.

KEITH JESS was appointed as an independent non-executive director in September 2019 and as Chair of the Audit & Risk Committee in March 2020. He is a member of the Senate of Queen's University Belfast and a non-executive director on the Board of The Progressive Building Society, in each case chairing the Audit Committees.

His executive career was primarily at Ernst & Young (EY) (and its predecessor entities) based in its Belfast office, where he was Audit Partner from 1990 to 2017. He was Engagement Partner for EY on the audit of a number of companies within the energy sector in Northern Ireland and a range of other large industrial and commercial clients. He is a Fellow of the Institute of Chartered Accountants in Ireland.

ALAN BRYCE was appointed as an independent non-executive director in January 2018. He is a non-executive director of Jersey Electricity plc. He has extensive relevant experience and knowledge of the energy sector as he formerly held senior executive positions at Scottish Power including as UK Planning and Strategy Director, Managing Director of Generation and Managing Director of Energy Networks. He was previously a non-executive director of Scottish Water, Infinis Energy plc and at Iberdrola USA. He is a Fellow of the Institution of Engineering and Technology**.**

PAUL STAPLETON, Managing Director, was appointed to the Board in May 2018. He is a director of Energy Networks Association Ltd, European Distribution System Operators (E.DSO), the Northern Ireland Centre for Competitiveness and a committee member of the Institute of Directors (IoD) in Northern Ireland. He joined ESB in 1991 where he held a number of senior management positions including General Manager of Electric Ireland, ESB Group Treasurer and Financial Controller of ESB Networks Limited. He is an IoD Chartered Director and a member of the Chartered Institute of Management Accountants.

GORDON PARKES, Human Resources Director, was appointed to the Board in May 2019. He has been HR Director since 2000. He is a Board Member of the Board of Trustees of the Grand Opera House Trust and of the Royal Belfast Academical Institution. He formerly held HR Director or Head of Human Resources positions at Norbrook Laboratories Ltd, Tyrone Crystal Ltd and Charnos/Adria Ltd. He has been a Board member at the Labour Relations Agency and a member of the CBI Employment and Skills Committee. Since 2013 he has been a Chartered Fellow of the Chartered Institute of Personnel and Development (CIPD) and, in 2019, was awarded Chartered Companion status by the CIPD Board. He holds a Masters in Business Administration.

GROUP DIRECTORS' REPORT

The directors present their report and audited financial statements for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (together, the Group) for the year ended 31 December 2020.

Results and Dividends

The results for the year ended 31 December 2020 show a profit after tax of £63.4m (2019 - £59.1m). During the year the Company paid a dividend of £18.0m (2019 - £23.7m). The business and financial review, together with future business developments, are provided in the Group Strategic Report.

Corporate Governance

The Board's Governance Report

NIE Networks' regulatory licences require it to establish, and at all times maintain, full managerial and operational independence within the ESB Group. The NIE Networks Compliance Plan, approved by the Utility Regulator, sets out how this independence is achieved. NIE Networks is an independent company within the ESB Group of companies with its own Board of directors, management and employees.

In January 2019, NIE Networks adopted the Corporate Governance Principles for Large Private Companies issued by the Financial Reporting Council (FRC) in December 2018 (or 'The Wates Principles'). The principles below have been applied throughout the year ended 31 December 2020.

Purpose and Leadership

Good governance provides the foundation for long term value creation and is a core focus for the NIE Networks Board. The Board sees its duties as including responsibility for the long-term success of NIE Networks, providing leadership and direction for the business and supporting and challenging management to get the best outcomes for NIE Networks and its stakeholders.

NIE Networks' Purpose aligns with ESB Group's Purpose 'to create a brighter future for the customers and communities we serve and will do this by leading the transition to reliable, affordable, low carbon economy'. At its strategy session in November the Board approved an updated Vision statement for NIE Networks. Our vision of 'Delivering a Sustainable Energy System for All' sets the specific goal NIE Networks aspires to in the future, providing direction for the Company within the changing external landscape in which it operates. The Board also endorsed redefined and simplified Values of being Safety, People, Customer, Commercially and Future focussed. Our redefined Purpose, Vision and Values will provide direction and motivation to employees and external stakeholders in relation to our future purpose and on the principles, beliefs and standards that will guide both employees' and management's actions as the Company moves in that direction.

The Board oversees the development of management's plans for investing in the network and delivering services to customers for each multi-year price control period, providing scrutiny and challenge before submission to the UR and considers for approval the UR's determination. Once the multi-year plan is agreed the Board considers and approves the strategy to deliver the agreed plan, including human and financial resources, procurement strategies, and approves annual business plans for delivery. The Board ensures that there is a strong management team in place to execute the strategy and drive business performance and to maintain a framework of prudent and effective controls to mitigate risk. Each year the Board reviews the succession management and leadership development arrangements for the senior management team.

In line with NIE Networks' Purpose and Vision, the Board considers long term developments for the energy system, principally the need to decarbonise the energy system before 2050, recognising that major change will be required to facilitate the growth of low carbon technologies connecting to the network which will impact how the network is managed and operated. The Board has been considering and planning for these long-term developments for the Company, providing challenge and guidance to management. During 2020 the Board considered the Company's internal business decarbonisation journey and endorsed a Sustainability Action Plan for NIE Networks to achieve a significant reduction in its internal business carbon footprint over the next four years.

In addition to the Board's leadership and oversight in ensuring that the Company progresses its strategic objectives, the Board provided leadership throughout the particular operational challenges faced during the year. In responding to the impact of the Covid-19 pandemic on the Company's operations and resilience, and in addressing safety challenges following the fatality of a colleague in August whilst working on the network as well as other serious safety incidents, the Board provided direction and support to management, had oversight of crisis management and considered and addressed the impact on employees and external stakeholders.

NIE Networks' Code of Ethics, setting out our approach to responsible and ethical business behaviour, has been approved by the Board. The underlying principle of the Code is that everyone working for NIE Networks must adhere to the highest standards of integrity, loyalty, fairness and confidentiality, including meeting all legal and regulatory requirements. The Board's Audit & Risk Committee is advised of any serious concerns raised by employees, and stakeholders generally, via the speaking up / whistleblowing arrangements as and when they arise and of the outcome of related investigations. Contractors, external consultants and other third parties acting on behalf of NIE Networks, are also expected to conduct themselves in accordance with the purpose of the Code and the Board's Audit and Risk Committee has ensured that processes are in place for this purpose.

Culture is the combination of values, attitudes and behaviours manifested by a company in its operation and relationship with stakeholders. The Board monitors the culture within NIE Networks by receiving information throughout the year on safety incidents, absenteeism, employee turnover, internal control weaknesses and employee engagement outcomes which during 2020 included feedback on safety issues and the Company response to the pandemic as well as considering the key outcomes from a 360^0 feedback process covering around 200 managers. Non-executive directors also engage directly with employees. The Board also monitors culture by considering stakeholder and customer surveys.

The Board ensures that there are well embedded arrangements for engagement with employees on NIE Networks' purpose, strategy and business activities and on the behaviours expected of all employees arising from the Company's values and culture. This includes monthly briefings, video messages from the Managing Director, Employee Engagement Board and local meetings, as well as engagement with trade unions. In addition, a new comprehensive messaging handbook was made available to all employees in 2020. During the year non-executive directors also attended a number of briefings with senior management.

Board Composition

The NIE Networks Board comprises a majority of independent non-executive directors, currently three independent non-executive directors together with two executive directors. From September 2019 to early March 2020 there were four non-executive directors, enabling a smooth transition of responsibilities.

Dame Rotha Johnston DBE was appointed Chair of the Board on 4 March 2020 following Stephen Kingon CBE stepping down. Throughout 2020, Alan Bryce and Keith Jess were the Board's other independent non-executive directors. Paul Stapleton, Managing Director, and Gordon Parkes, Human Resources Director, were executive directors throughout 2020.

The non-executive directors bring diverse experience, independence and challenge to support effective decision-making. The range of Board members' experience in: the electricity industry; business and finance; accounting and auditing; human resources; serving on other Boards and Audit Committees; and in NIE Networks' operations is set out in their biographies on page 28. The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of them.

The Board has agreed a statement of the division of responsibilities between the Chair and the Managing Director. The non-executive Chair leads the Board, considers and approves the Board agenda and is responsible for ensuring the Board's effectiveness and effective communication with the Company's shareholder and other key stakeholders whilst the Managing Director is responsible for the executive leadership of the day to day running of NIE Networks.

Appointments to the Board are reserved to NIE Networks' ultimate parent undertaking, ESB, for approval. This is in accordance with the NIE Networks Compliance Plan. The Chair and the Managing Director engage with ESB about the key skills and experience that are required on the Board. Non-executive directors are appointed by NIE Networks under contracts for services setting out expected time commitment, duties and fees. An induction programme is in place to familiarise new non-executive directors with NIE Networks.

The Board conducts an annual evaluation of its own performance, and that of the Audit & Risk Committee, in order to identify ways to improve effectiveness. The evaluation, which relates to the Board and the Committee's collective performance, is led by the Chair and supported by the Company Secretary. Based on members' responses to a questionnaire, a report is provided to the Board, and the Committee respectively, with proposed actions to address the issues raised, with non-executive directors meeting separately to consider the reports. The annual assessment includes consideration of specific training and development needs by each director.

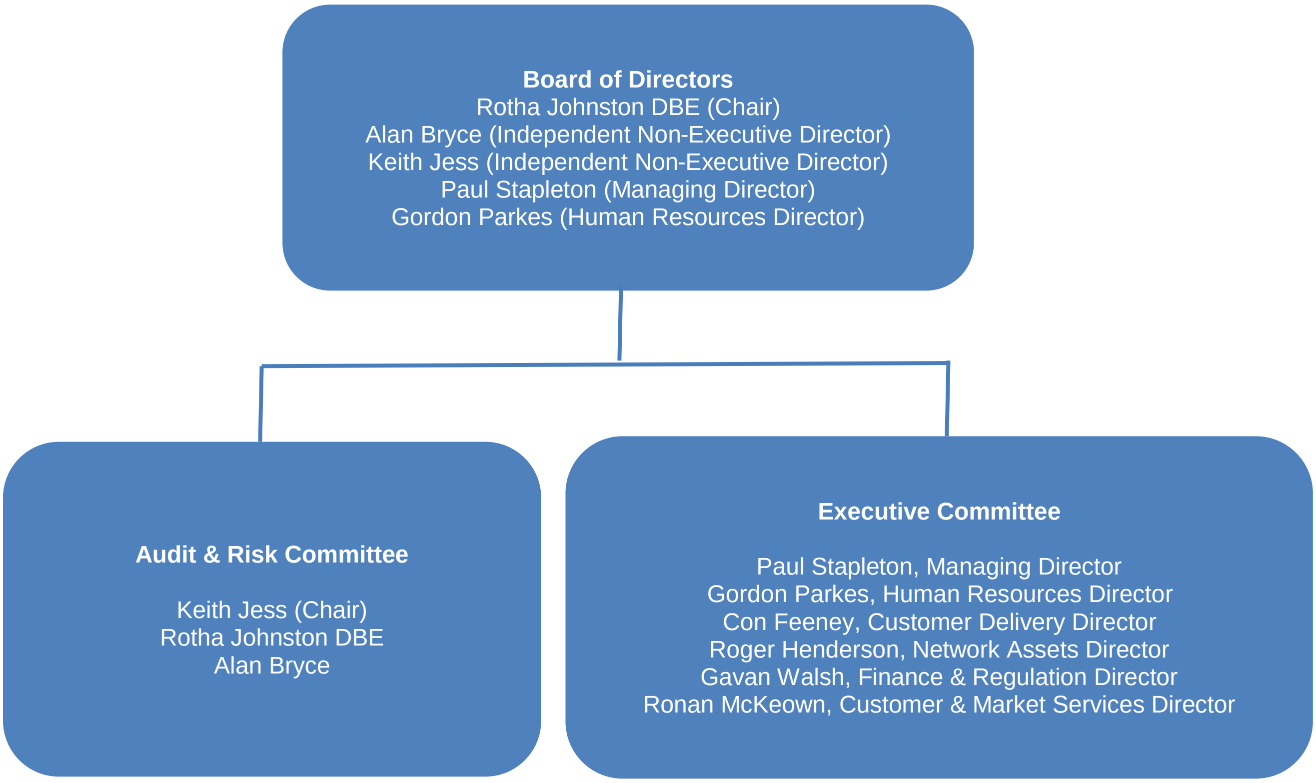
Director Responsibilities

The Board is responsible for reviewing NIE Networks' operational and financial performance and for ensuring effective internal control and risk management. There is a formal schedule of matters reserved to the Board for decision including approval of: the Annual Financial Plan; dividends; annual statutory, interim and regulatory financial statements; major capital expenditure; major regulatory submissions and certain annual regulatory reports; key corporate policies; the annual Health, Safety and Wellbeing Plan; and appointments to the Executive Committee on the recommendation of the Managing Director. The Board has five scheduled meetings each year and a separate annual meeting to focus on longer term strategic issues. Additional meetings on specific matters are held as required and during 2020 there were a number of additional Board meetings to consider the Company's response to the Covid-19 pandemic and serious safety incidents.

The Board has delegated authority to management for decisions in the normal course of business subject to specified limits. The Board has delegated authority to the Executive Committee of the Board to undertake much of the day-to-day business and management and operation of NIE Networks with new terms of reference for the Committee approved by the Board during the year. The Executive Committee meets formally monthly and on other occasions as necessary and reports on its activities to each Board meeting.

The Audit & Risk Committee is a formally constituted committee of the Board, comprising solely non-executive directors, with detailed terms of reference setting out its responsibility for overseeing the Group's financial reporting process and internal control and risk management systems. More detail on the activities of the Audit & Risk Committee is provided on pages 34 - 35.

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



Directors are required to comply with the requirements of NIE Networks' Code of Ethics. Directors make annual disclosures of any potential or actual conflicts of interest and are responsible for notifying the Company Secretary on an ongoing basis should they become aware of any change in their circumstances regarding conflicts of interest.

Non-executive directors, in the furtherance of their duties, may take independent professional advice at the expense of NIE Networks. All Board members have access to the advice and services of the Company Secretary.

Papers and presentations are sent to each Board member electronically in advance to allow sufficient time to review and consider matters for discussion and decision. To monitor ongoing business performance the Board receives monthly updates on financial, and non-financial key performance indicators approved by the Board. The Board receives regular updates on Health, Safety and Environment, regulatory matters, HR matters including employee engagement and stakeholder engagement against approved plans. All information submitted to the Board and Audit & Risk Committee is subject to prior review by the Executive Committee and clearance by the Managing Director, with formal arrangements in place for supporting clearances for matters requiring the Board's approval. Members of the Executive Committee and senior management are invited to attend Board meetings to present and discuss specific matters to enable the Board to question and challenge management directly.

The corporate relationship between NIE Networks and its ultimate parent, ESB, is set out formally, and specifies the standards of governance, internal control and risk management arrangements which NIE Networks must have in place, reporting arrangements to ESB, the responsibilities of the NIE Networks Board and Managing Director and the annual business planning process to meet Group requirements. The arrangements are consistent and compliant with NIE Networks' regulatory conditions and the Compliance Plan with respect to NIE Networks' independence within the ESB Group.

Opportunity and Risk

Opportunity

To ensure the long-term sustainable success of NIE Networks, management continues to seek regulatory allowances or incentive arrangements as appropriate, for innovative developments to improve performance and to enable the long-term development of the network for future customers. The current price control includes a provision to share reduced delivery costs under the 50/50 gain share mechanism and an incentive mechanism for achieving reductions in customer minutes lost, enabling the creation of value for both the business and customers. The Company also has a regulatory allowance to undertake a number of important network innovation projects.

The development of the roadmap for the long-term transition to a distribution system operator, and the consideration of strategies to support and enable decarbonisation and electrification, overseen by the Board, are opportunities being pursued to sustain and enhance the relevance and value of the business in the longer term by adapting to changing external requirements. In the shorter term, the directors have identified areas where swift action will maximise opportunities for Northern Ireland as it recovers from the Covid-19 crisis, alongside supporting net zero carbon ambitions for the industry.

Risk

The Board has overall responsibility for risk management and internal control, ensuring that the Group's risk exposure remains proportionate to the pursuit of its strategic objectives and longer-term stakeholder value. The Board delegates responsibility for oversight of risk to the Audit & Risk Committee which retains overall responsibility for ensuring that enterprise risks are properly identified, assessed, reported and controlled on behalf of the Board in its consideration of overall risk appetite, risk tolerance and risk strategy. The process of considering the Group'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 Group. During the spring, additional risk reviews were conducted in light of the Covid-19 pandemic which identified a number of areas where the impact of the pandemic resulted in an elevated risk profile and mitigation plans were reviewed and updated and continued to be closely monitored over the remainder of the year.

The Board has approved the Risk Management Policy to support its oversight of risk. The Committee of Sponsoring Organisations (COSO) Framework is used to guide NIE Networks in the management of uncertainty, whether positive or negative. NIE Networks' risk management framework provides clear policies, processes and procedures to ensure a consistent approach to risk identification, evaluation and management across the Group and includes appropriate structures to support risk management and the formal assignment of risk responsibilities to facilitate managing and reporting on individual risks. Each business unit within NIE Networks maintains its own risk register.

The Risk Management Policy also outlines the risk management roles and responsibilities and the main organisational and procedural arrangements that apply to support the effective management of risk. At Executive level, the Risk Management Committee (RMC), chaired by the Finance & Regulation Director and comprising a number of Executive Committee members and senior managers, oversees and directs risk management in accordance with the approved policy. The RMC considers the status of principal risks and mitigation strategies (as well as emerging risks and HILPs) biannually and reports on its activities to the Executive Committee, Audit & Risk Committee and the Board throughout the year.

The Audit & Risk Committee regularly reviews management's assessment of the principal risks and mitigating actions, 'High Impact Low Probability Risks', emerging risks, and considers detailed presentations on mitigating specific risks. Principal risks are set out in pages 23 - 26 in the Group Strategic Report. At least annually the Board considers and agrees risk tolerances for key business activities.

The Internal Audit function reports to the Audit & Risk Committee, independent of management, and provides independent assurance to the Audit & Risk Committee on the adequacy and effectiveness of NIE Networks' system of governance, risk management and control.

Relevant international standards provide the framework to manage risks and opportunities in a number of key areas. NIE Networks' asset management, health and safety management and environmental management systems are accredited to ISO 55001: 2014, ISO 45001 and ISO 14001 respectively.

Remuneration

It is recognised that an effective remuneration policy aligned to business needs will underpin high performance.

The Remuneration Policy for all employees on personal contracts, including senior executives and covering around 25% of employees, is reviewed and approved by the Board each year. The policy sets out how the Company will ensure that the remuneration of senior executives and other employees on personal contracts is aligned to market rates and allows for differentiation based on performance, competence, responsibilities and adherence to the Company's values and behaviours.

The policy provides that all senior executives and employees on personal contracts receive market-based remuneration based on detailed benchmarked data derived from a range of suitable sources and verified by an independent specialist third party. The policy sets out arrangements for each element of the remuneration package, comprising salary, performance-related bonus, pension, private health insurance, death in service benefit, ill health retirement benefit and non-cash benefits, all of which are considered as part of any benchmarking exercise. A separate benchmarking policy, setting out the benchmarking process, is subject to Board approval.

Salaries for all employees on personal contracts, including senior executives, are reviewed annually for potential cost of living increase, including a proportion which is dependent on the achievement of annual company performance targets, and is aligned with pay awards agreed with the trade union representing engineering staff.

The remuneration package for all employees on personal contracts, including senior executives, includes the potential to earn an annual performance-related bonus based on the achievement of individual, team and company-wide performance targets, which are aligned with meeting customer and stakeholder needs.

Stakeholder Relations and Engagement

NIE Networks operates across all of Northern Ireland, providing service to every home and business. The Board recognises that the Company's activities have a significant impact on many stakeholders, both current and future customers, and members of the public in relation to safety and to the environment.

Key external stakeholder groups comprise the Utility Regulator, policy makers including relevant government departments and agencies; customers and their representative groups; local political representatives; electricity industry participants; industry groups; key suppliers; and bond investors.

The Board has endorsed the Company's external stakeholder engagement strategy, the key element of which is to set out the Company's current, and developing, role within the industry, how it ensures: reliability of network performance, safety of the network, minimal impact on the environment and continual improvement in customer service and satisfaction. The Managing Director chairs the Stakeholder Engagement Steering Group, comprising relevant senior managers, which oversees the implementation of the strategy. The strategy identifies key stakeholders and their issues and interests, the Company's objectives in the engagement process and the planned delivery against each objective. The strategy was revised in the light of the impact of the Covid-19 pandemic to ensure that stakeholder engagement focussed on developing and implementing our changed operational arrangements and their impact on customers and the community during the pandemic. Later in the year the strategy focussed on engaging on our proposals for a green economic recovery in Northern Ireland, and our role in the recovery.

The Board receives updates from the Managing Director at each Board meeting on key stakeholder engagement activity with updates on the implementation of the strategy biannually.

The non-executive directors are involved directly in engagement with the Utility Regulator Board members, senior government officials and elected representatives and industry groups as appropriate.

Further details on engagement with key stakeholders are provided on pages 19 – 23 of the Group Strategic Report.

Given its dependence on highly trained, skilled and engaged people within the business to achieve its objectives, the Board recognises that NIE Networks' most significant stakeholder group is its workforce. NIE Networks places considerable emphasis on its employee participation and engagement processes which are well embedded in the Company's culture. The HR Director, an executive director of the Board, oversees and leads the employee engagement processes and during the year provided regular updates to the Board on the processes and matters being addressed, through the various forums, particularly in relation to responding to the pandemic (including the feedback from an employee engagement survey on the Company's response and what improvements could be made and plans to progress). Later in the year the Board received feedback from company-wide employee focus groups considering the approach to safety within the organisation and proposals for an improvement plan. Each non-executive director attended a meeting of the Employee Engagement Board during the year to participate in the discussions.

The non-executive directors' planned informal engagement with employees at various work locations was impacted by the pandemic however a number of non-executive directors had the opportunity to engage with employees at a depot on the new working arrangements and protocols in place to ensure employees' health and safety during the pandemic.

Details of the employee engagement processes are provided on pages 17, 19 and 20 of the Group Strategic Report.

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.

The Audit & Risk Committee comprises the independent non-executive directors. Rotha Johnston chaired the Committee to early March 2020, until her appointment as Chair of the Board, with Keith Jess chairing the Committee since that point. The Board is satisfied that at least one member of the Committee is competent in accounting and auditing. The Committee had six meetings during 2020.

The terms of reference set out the duties of the Audit & Risk Committee. The most significant issues considered by the Committee during 2020, and up to the date of this report, are outlined below:

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

Internal Controls and Risk Management
- considered and approved the Risk Management Committee's work programme for 2020 and received regular updates on progress;
- considered the Group's principal risks faced, together with mitigating actions being taken to manage the risks, and their alignment to the risk tolerance levels agreed;
- considered the outcome of risk reviews undertaken to assess the potential impact of Covid-19 pandemic, including stress testing of specific risk areas and activities, and mitigation plans;
- reviewed and monitored the effectiveness of internal controls and the risk management framework;
- considered an updated risk appetite assessment relating to the Group's principal risks and other key business activities;
- considered an assessment of 'High Impact Low Probability' risks;
- monitored the potential impact of the Northern Ireland Protocol in relation to the UK's exit from the European Union;
- monitored progress to ensure compliance with the Data Protection Act and Networks Information Systems Directive and considered cyber security;
- reviewed the Group's statements for publication on the prevention of slavery and human trafficking; and
- reviewed the operation of the Group's key ethics policies including the adequacy of the arrangements in place for employees to raise concerns about possible wrongdoing.

Internal Audit
- considered Deloitte's annual report of the internal audit plan conducted during 2019;
- reviewed and approved the 2020 internal audit plan and monitored progress against this plan to assess the effectiveness of this function;

- considered Deloitte's annual assurance opinion on the adequacy and effectiveness of the Group's governance, risk management and controls during 2020;
- reviewed reports detailing the results of internal audits and the timeliness of the implementation of actions; and
- reviewed and approved the 2021 internal audit plan to be conducted by Deloitte.

The Committee had the facility to discuss any areas of the programme with Deloitte without the presence of management.

External Audit

- reviewed reports from the external auditor on the audit of the 2019 statutory financial statements and March 2020 regulatory financial statements;
- reviewed the proposed external audit plan for the 2020 statutory financial statements to ensure that the external auditor had identified all key audit risks and developed robust audit procedures;
- considered the external auditor's adherence to independence requirements; and
- reviewed the report from the external auditor on the audit of the 2020 statutory financial statements and comments on accounting, financial control and other audit issues.

The Committee had the facility to discuss any areas of the audit with the external auditor without the presence of management.

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

Internal Control Framework

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

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

- a code of ethics that requires all Board members and employees to maintain the highest ethical standards in conducting business;
- a clearly defined organisational structure with defined authority limits and reporting mechanisms;
- comprehensive budgeting and business planning processes with an annual budget approved by the Board;
- a continuous forecasting and monitoring process to manage financial risk;
- an integrated accounting system with a comprehensive system of management and financial reporting. A monthly financial report is prepared which includes analysis of results along with comparisons to budget, forecasts and prior year results. These are reviewed by the Executive Committee and the Board members on a monthly basis;
- a financial control framework reviewed in accordance with statutory and regulatory obligations;
- a comprehensive set of policies and procedures relating to financial and operational controls including health and safety, regulation, HR, asset management, risk management and capital expenditure;
- a risk management framework including the maintenance of risk registers and ongoing monitoring of key risks and mitigating actions;
- appropriately qualified and experienced personnel including a governance team responsible for key controls testing;
- senior managers formally evaluating the satisfactory and effective operation of financial and operational controls;
- internal auditors testing management's implementation of their recommendations following audit reviews; 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 and has concluded that, during 2020, the overall governance, risk management and internal control framework was adequate to provide reasonable assurance of sound internal control and that NIE Networks maintained an effective system of internal control which would prevent or detect against material misstatement or loss.

Streamlined Energy and Carbon Reporting (SECR) statement

This statement is made in compliance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SECR Regulations) which introduced energy and carbon reporting requirements for large unquoted companies. NIE Networks is a large unquoted company according to the SECR Regulations.

This SECR Compliance report is prepared for the period from 1 January 2020 to 31 December 2020, NIE Networks' first reporting year under the SECR scheme.

Methodology used in calculating energy and carbon reporting data

The methodology chosen for calculating Greenhouse Gas (GHG) emissions is the GHG Protocol Corporate Standard (the GHG Protocol). The GHG Protocol is a multi-stakeholder partnership of businesses, non-government organisations, and governments, led by the World Resources Institute and the World Business Council for Sustainable Development. It serves as the premier source of knowledge on corporate GHG accounting and reporting and draws on the expertise and contributions of individuals and organisations from around the world. It is internationally accepted as best practice.

In line with the GHG Protocol, NIE Networks has adopted the operational control approach and therefore accounts for all of the emissions from operations over which it has operational control. All of NIE Networks' operations take place within NI.

Defining the operational boundary involves the identification of emissions associated with energy consumption, categorising them as direct and indirect emissions, and choosing the scope of accounting and reporting for them. The following NIE Networks activities and associated GHG emissions have been included in this SECR report:

UK energy use

- activities for which NIE Networks is responsible which involve the combustion of gas, or consumption of fuel for the purposes of transport;
- the purchase of electricity by the NIE Networks for its own use, including for the purposes of transport; and
- associated greenhouse gas emissions.

In addition, petrol, gas oil, heating oil, air travel, transmission and distribution losses and fugitive emissions from air-conditioning have also been included voluntarily.

Energy and carbon information in relation to hire cars has been excluded on the basis that this accounts for an insignificant proportion of NIE Networks' overall energy use and carbon emissions. NIE Networks is committed to developing a process to record hire car fuel consumption for business purposes for future reporting periods.

Certain energy and carbon information has been estimated with the reasons provided below:

- electricity data for December for two premises was not available and has been estimated based on historical consumption patterns
- gas data for December for two premises was not available and has been estimated based on historical consumption patterns.

NIE Networks' Environmental Management System is accredited to ISO 14001. Its carbon targets, performance and trends are tracked on a monthly basis and presented to an internal Environmental Management Committee (EMC) for governance purposes. The EMC is chaired by the Network Assets Director.

Routine internal quality audits are undertaken on the source data and scorecards to ensure compliance.

Energy and Carbon Data

Energy consumption data and associated scope 1, 2 and 3 emissions were collated for NIE Networks' operations in line with the methodologies outlined above. The table below provides details of NIE Networks' energy consumption in kWh and the quantity of emissions using tonnes of carbon dioxide equivalent (tCO_2e).

While the inclusion of petrol, gas oil, heating oil, air travel, transmission and distribution losses, and fugitive emissions from air conditioning is not mandatory under SECR requirements, NIE Networks has voluntarily included the information in this report.

Scope and Categories	2020 2020 Energy Data (kWh)	2020 GHG Emission (Tonnes of CO2e)	2019 2019 Energy Data (kWh)	2019 GHG Emission (Tonnes of CO2e)
Scope 1				
Combustion of Natural Gas	**600,621**	110	**660,455**	121
Combustion of Liquefied Petroleum Gas (LPG)	**49,738**	11	**56,863**	12
Combustion of Diesel for transport purposes	**12,945,859**	3,114	**13,865,878**	3,399
Voluntary Disclosures	**-**	382	**-**	371
Scope 1 Total (mandatory)	**13,596,218**	3,235	**14,583,196**	3,532
Scope 1 Total (incl. voluntary disclosures)	**-**	3,617	**-**	3,903
Scope 2				
Purchase of grid electricity	**3,222,009**	1,092	**3,327,090**	1,128
Scope 3				
Grey Fleet Mileage (voluntary)	**2,153,396**	549	**3,144,043**	825
Business Air Travel (incl. radiative forces) (voluntary)	**-**	7	**-**	52
Total (mandatory)	**16,818,227**	4,327	**17,910,286**	4,660
Total (incl. voluntary disclosures)	**-**	5,265	**-**	5,908

Intensity Ratio

SECR regulations require a statement of relevant intensity ratios which are an expression of the quantity of emissions in relation to a quantifiable factor of the business activity. NIE Networks' chosen intensity measurement is tonnes of carbon dioxide equivalent (tCO_2e) per employee. The intensity ratio for 2020 was 3.5855 tCO_2e (2019: 3.8610 tCO_2e).

Only mandatory scope 1 and 2 emissions are relevant in the calculation of the intensity ratio.

Measures for increasing the Group's efficiency during the year

NIE Networks operates an aged office building stock but have made concerted efforts to reduce energy consumption over the last number of years. Over the last five years, energy performance initiatives such as installing LED lighting and PIR sensors have contributed, on average, to a 13% reduction in electricity consumption over that period.

The electricity consumption at 10 of 16 office buildings has reduced in 2020 due to the increased working from home by employees associated with the Covid-19 pandemic. Overall there has been a 6% reduction in electricity and 9% reduction in gas consumption during 2020 when compared with 2019. As NIE Networks is an Essential Service Provider all our buildings remained open during the restrictions which limited the reductions that may have been seen in other businesses.

After a long-term initiative to reduce fuel usage of NIE Networks' fleet vehicles, NIE Networks continues to strive to maintain this usage at the lowest possible level whilst meeting the operational needs of the business. Following a number of reviews into fleet efficiency, fleet fuel consumption has reduced by over 9% over the last five years. NIE Networks will welcome the first electric vehicles onto its fleet in 2021 which will reduce the future carbon impact of the fleet.

During 2020, the Group has implemented the following energy efficiency measures:

- a Sustainability Forum has been established tasked with identifying, developing and implementing initiatives associated with reducing NIE Networks' carbon footprint culminating in the approval of NIE Networks' Sustainability Action Plan to 2024;
- quarterly-billed electricity meters were upgraded at seven of our 16 premises to provide more detailed data on electricity consumption;
- progressed refurbishment and replacement building projects for existing premises that will contribute to carbon reduction targets in future years;
- commenced a trial to introduce electric operational fleet vehicles; and
- introduced a new vehicle tracking system to provide more information that will help inform future sustainable driving strategies, including the identification of vehicles suitable for transition to an electric equivalent.

Directors' Insurance

Insurance in respect of directors' and officers' liability is maintained by the Company's ultimate parent, ESB. This insurance was in place throughout the year and at the date of approval of these financial statements.

Disclosure of Information to the Auditors

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

Appointment of Auditors

In accordance with Section 487 of the Companies Act 2006, PricewaterhouseCoopers LLP (PwC) will be deemed to be reappointed as external auditors of the Company.

Modern Slavery Act

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

Political Donations

No donations for political purposes have been made during the year (2019 - £nil).

Group Strategic Report

The following information required in the Group Directors' Report has been included in the Group Strategic Report and is included in this report by cross reference:

- an indication of future developments in the business (see pages 4 – 19);
- the Group's objectives and policies for financial risk management (including liquidity risk and credit risk) (see pages 7 - 8);
- a statement on the policy for disabled employees (see page 17);
- an indication of activities in the Group in the field of research and development (see pages 12 - 14);
- arrangements for employees to participate in the affairs of the Group (see page 17);
- how the directors have engaged with employees, how they have had regard to employee interests and the effect of that regard, including on the principal decisions taken by the Group in the financial year (see pages 17, 19 - 23); and
- how the directors have had regard to the need to foster the Group's business relationships with suppliers, customers and others and the effect of that regard, including on the principal decisions taken by the Group in the financial year (see pages 20 – 23).

Statement of Directors' Responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Paul Stapleton
Managing Director

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

Registered Number: NI026041

11March 2021

Report on the audit of the financial statements

Opinion

In our opinion:

- Northern Ireland Electricity Networks Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's and company's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statement (the "Annual Report"), which comprise: the group and the company balance sheets as at 31 December 2020; the group income statement and statement of comprehensive income, the group cash flow statement and the group and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- We performed a full scope audit over the financially significant components (Northern Ireland Electricity Networks Limited and NIE Finance Plc).

Key audit matters

- Accounting estimates – unbilled debt (group and parent)
- Impact of Covid 19 (group and parent)

Materiality

- Overall group materiality: £4,632,701 (2019: £3,647,709) based on 5% of profit before tax.
- Overall company materiality: £4,632,701 (2019: £3,647,709) based on 5% of profit before tax.
- Performance materiality: £3,474,526 (group) and £3,474,526 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Listing Rules and the requirements of the Northern Ireland Authority for Utility Regulation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and the group's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to accounting for unbilled debt;
- We have discussed and understood the nature of open matters between the company and the Northern Ireland Authority for Utility Regulation; and
- Identifying and testing journal entries, in particular any journal entries posted with an unusual description, unusual nominal account combinations against revenue, operating expenses and unbilled debt or entries made by unexpected persons.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Accounting estimates – unbilled debt (group and parent) Unbilled revenue is based on an estimation in respect of consumption derived using historical data and detailed assumptions. Estimation uncertainty and the complexity of calculations give rise to heightened misstatement risk and are therefore a focus of our audit work.	We understood and tested the processes and internal controls which Northern Ireland Electricity Networks Limited has in place for the estimation of unbilled revenue. We selected a sample of unbilled revenue amounts and checked the calculation of these amounts in light of actual billings subsequent to 31 December 2020 in order to ensure that the estimates made were not materially different.
Impact of Covid 19 (group and parent) The ongoing and evolving Covid-19 pandemic is having a significant impact on the global economy and the economy of Northern Ireland. There is significant uncertainty as to the duration of the pandemic and what its impact will be on the local economy. The related financial impact on the group's and company's cash flow forecasts, headroom against facilities, and therefore their ability to continue as a going concern, is expected to be primarily in terms of fluctuating electricity demand and changes in payment profiles of trade receivables.	We held discussions with the Directors and reviewed board papers that modelled the sensitivity of cash flow forecasts to possible changes resulting from Covid-19. We challenged the key assumptions used in those sensitivities and the Group's and Company's ability to mitigate adverse cash flow impacts that may arise from fluctuating electricity demands and changes in payment profiles of trade receivables. The group has an unutilised revolving credit facility for £200m as at the year end.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate. As part of our procedures to develop our Audit Strategy, as well as meeting with management, we attended a number of the Audit & Risk Committee meetings during the year, engaged with Internal Audit and performed interim review procedures. The Northern Ireland Electricity Networks Limited Group comprises of Northern Ireland Electricity Networks Limited, NIE Finance PLC and NIE Networks Services Limited. All companies are financially significant to the group and therefore required an audit of their complete financial information. As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£4,632,701 (2019: £3,647,709).	£4,632,701 (2019: £3,647,709).
How we determined it	5% of profit before tax	5% of profit before tax
Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was equal to our overall group materiality. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £3,474,526 for the group financial statements and £3,474,526 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £175,000 (group audit) (2019: £182,000) and £175,000 (company audit) (2019: £182,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
12 March 2021

GROUP INCOME STATEMENT
for the year ended 31 December 2020

	Note	**2020 £m**	2019 £m
Revenue	3	**302.2**	276.3
Operating costs	4	**(172.5)**	(166.0)
OPERATING PROFIT		**129.7**	110.3
Finance revenue	6	**0.1**	0.3
Finance costs	6	**(35.3)**	(35.3)
Net pension scheme interest	6	**(1.8)**	(2.4)
Net finance costs	6	**(37.0)**	(37.4)
PROFIT BEFORE TAX		**92.7**	72.9
Tax charge	7	**(29.3)**	(13.8)
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**63.4**	59.1

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2020
Group and Company

	Note	**2020 £m**	2019 £m
Profit for the financial year		**63.4**	59.1
Other comprehensive income: Items not to be reclassified to profit or loss in subsequent periods:			
Re-measurement (losses) on pension scheme assets and liabilities	22	**(17.8)**	(22.1)
Deferred tax credit relating to components of other comprehensive income	7	**6.7**	3.8
Net other comprehensive expense for the year		**(11.1)**	(18.3)
Total comprehensive income for the year attributable to the equity holders of the parent company		**52.3**	40.8

BALANCE SHEETS
as at 31 December 2020

	Note	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Non-current assets					
Property, plant and equipment	9	**1,888.3**	1,849.3	**1,889.1**	1,850.1
Right of use assets	10	**11.7**	11.9	**11.7**	11.9
Intangible assets	11	**17.8**	19.4	**17.8**	19.4
Derivative financial assets	18	**513.0**	492.2	**513.0**	492.2
Investments	12	**-**	-	**7.9**	7.9
		2,430.8	2,372.8	**2,439.5**	2,381.5
Current assets					
Inventories	13	**18.3**	14.8	**18.3**	14.8
Trade and other receivables	14	**60.6**	53.3	**60.6**	53.3
Current tax receivable		**-**	1.9	**-**	1.9
Derivative financial assets	18	**19.0**	14.4	**19.0**	14.4
Cash and cash equivalents	15	**21.5**	9.0	**21.5**	9.0
		119.4	93.4	**119.4**	93.4
TOTAL ASSETS		**2,550.2**	2,466.2	**2,558.9**	2,474.9
Current liabilities					
Trade and other payables	16	**84.6**	71.0	**93.8**	80.2
Lease liabilities	10	**2.4**	2.8	**2.4**	2.8
Current tax payable		**2.7**	-	**2.7**	-
Deferred income	17	**21.3**	19.1	**21.3**	19.1
Financial liabilities:					
Derivative financial liabilities	18	**19.0**	14.4	**19.0**	14.4
Other financial liabilities	19	**16.4**	21.4	**16.4**	21.4
Provisions	21	**2.9**	3.4	**2.9**	3.4
		149.3	132.1	**158.5**	141.3
Non-current liabilities					
Deferred tax liabilities	7	**78.5**	71.2	**78.5**	71.2
Deferred income	17	**518.7**	516.0	**518.7**	516.0
Lease liabilities	10	**9.5**	9.1	**9.5**	9.1
Financial liabilities:					
Derivative financial liabilities	18	**513.0**	492.2	**513.0**	492.2
Other financial liabilities	19	**747.6**	747.2	**747.6**	747.2
Provisions	21	**3.7**	3.8	**3.7**	3.8
Pension liability	22	**104.9**	103.9	**104.9**	103.9
		1,975.9	1,943.4	**1,975.9**	1,943.4
TOTAL LIABILITIES		**2,125.2**	2,075.5	**2,134.4**	2,084.7
NET ASSETS		**425.0**	390.7	**424.5**	390.2
Equity					
Share capital	23	**36.4**	36.4	**36.4**	36.4
Share premium	23	**24.4**	24.4	**24.4**	24.4
Capital redemption reserve	23	**6.1**	6.1	**6.1**	6.1
Accumulated profits	23	**358.1**	323.8	**357.6**	323.3
TOTAL EQUITY		**425.0**	390.7	**424.5**	390.2

The profit after tax of the Company for the year is £63.4m (2019 - £59.1m).

The financial statements on pages 45 to 76 were approved by the Board of Directors on 11 March 2021 and signed on its behalf by:

Paul Stapleton
Director
Date: 11 March 2021

Company number: NI026041

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2020

Group

	Note	**Share capital £m**	**Share premium £m**	**Capital redemption reserve £m**	**Accumulated profits £m**	**Total equity £m**
At 1 January 2019		**36.4**	**24.4**	**6.1**	**306.7**	**373.6**
Profit for the year		-	-	-	59.1	59.1
Net other comprehensive expense for the year		-	-	-	(18.3)	(18.3)
Total comprehensive income for the year		-	-	-	40.8	40.8
Dividends to the shareholder	23	-	-	-	(23.7)	(23.7)
At 31 December 2019		**36.4**	**24.4**	**6.1**	**323.8**	**390.7**
Profit for the year		-	-	-	63.4	63.4
Net other comprehensive expense for the year		-	-	-	(11.1)	(11.1)
Total comprehensive income for the year		-	-	-	52.3	52.3
Dividends to the shareholder	23	-	-	-	(18.0)	(18.0)
At 31 December 2020		**36.4**	**24.4**	**6.1**	**358.1**	**425.0**

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2020

Company

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total equity £m
At 1 January 2019		**36.4**	**24.4**	**6.1**	**306.2**	**373.1**
Profit for the year		-	-	-	59.1	59.1
Net other comprehensive expense for the year		-	-	-	(18.3)	(18.3)
Total comprehensive income for the year		-	-	-	40.8	40.8
Dividends to the shareholder	23	-	-	-	(23.7)	(23.7)
At 31 December 2019		**36.4**	**24.4**	**6.1**	**323.3**	**390.2**
Profit for the year		-	-	-	63.4	63.4
Net other comprehensive expense for the year		-	-	-	(11.1)	(11.1)
Total comprehensive income for the year		-	-	-	52.3	52.3
Dividends to the shareholder	23	-	-	-	(18.0)	(18.0)
At 31 December 2020		**36.4**	**24.4**	**6.1**	**357.6**	**424.5**

CASH FLOW STATEMENT
for the year ended 31 December 2020

	Note	Group 2020 £m	Group 2019 £m
Cash flows generated from operating activities			
Profit for the year		**63.4**	59.1
Adjustments for:			
Tax charge		**29.3**	13.8
Net finance costs		**37.0**	37.4
Depreciation of property, plant and equipment		**80.2**	74.3
Depreciation of leased assets		**3.2**	2.9
Amortisation of intangible assets		**5.2**	4.9
Release of customers' contributions and grants		**(20.6)**	(18.5)
Defined benefit pension charge less contributions paid		**(18.6)**	(18.2)
Net movement in provisions		**(0.7)**	(0.6)
Operating cash flows before movement in working capital		**178.4**	155.1
(Increase) / decrease in inventories		**(3.5)**	(1.4)
(Increase) / decrease in trade and other receivables		**(7.3)**	0.6
Increase / (decrease) in trade and other payables		**5.2**	(6.0)
Increase in working capital		**(5.6)**	(6.8)
Cash generated from operations		**172.8**	148.3
Interest received		**0.1**	0.3
Interest paid		**(34.6)**	(35.4)
Lease interest paid		**(0.3)**	(0.3)
Current taxes (paid) / received		**(2.7)**	1.4
Net cash flows generated from operating activities		**135.3**	114.3
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(118.8)**	(133.8)
Customers' cash contributions		**25.6**	22.8
Purchase of intangible assets		**(3.7)**	(3.1)
Net cash flows used in investing activities		**(96.9)**	(114.1)
Cash flows generated from financing activities			
Dividends paid to shareholder		**(18.0)**	(23.7)
Amounts (repaid to) / received from group undertakings		**(5.0)**	5.0
Payment of lease liabilities		**(2.9)**	(2.9)
Net cash flows (used in)/generated from financing activities		**(25.9)**	(21.6)
Net increase / (decrease) in cash and cash equivalents		**12.5**	(21.4)
Cash and cash equivalents at beginning of year		**9.0**	30.4
Cash and cash equivalents at end of year	15	**21.5**	9.0

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 FINANCIAL STATEMENTS

1. General Information

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

- constructing and maintaining the electricity transmission and distribution networks in Northern Ireland and operating the distribution network;
- connecting demand and 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 market settlement.

2. Accounting Policies

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

New and revised accounting standards, amendments and interpretations
No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2020, have had a material impact on the financial statements of the Group or Company.

New and revised accounting standards, amendments and interpretations not yet adopted
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group or Company.

Basis of Preparation
The Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The financial statements of the Group and Company have been prepared under the historical cost convention, as modified by the revaluation of derivative instruments at fair value through profit or loss.

The financial statements are presented in Sterling (£) with all values rounded to the nearest £100,000 except where otherwise indicated.

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

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

2. Accounting Policies (continued)

Basis of Preparation – Going Concern

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 23 to the financial statements. The Group's debt finance at the year end comprised bonds of £350.0m and £400.0m (£348.6m and £399.0m respectively net of issue costs) which are due to mature in October 2025 and June 2026 respectively and a £200.0m Revolving Credit Facility (RCF) from ESB. None of the RCF was drawn down at 31 December 2020. The RCF is due to mature in December 2023.

The Group's liquidity risk is assessed through the preparation of cash flow forecasts. The Group's policy is to have sufficient funds in place to meet funding requirements for the next 12 to 18 months.

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 financial statements along with potential downside sensitivities, the directors have a reasonable expectation that the Group will have adequate financial resources for the 12-month period. While the Covid-19 pandemic continues to impact on both the Group and the wider economy, the directors have considered the possible financial impact on the Group's financial position and are of the opinion that the Group has adequate financial resources for the 12-month period. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Basis of consolidation

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

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

Infrastructure assets - up to 40 years
Non-operational buildings - freehold and long leasehold - up to 60 years
Fixtures and equipment - up to 10 years
Vehicles and mobile plant – up to 5 years

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

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.

2. Accounting Policies (continued)

Property, plant and equipment *(continued)*
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.

Right of Use Assets and Lease liabilities
On entering a new lease contract, the Group recognises a right of use asset and a liability to pay future rentals. The liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate. The right of use asset is depreciated over the shorter of the term of the lease and the useful life, subject to review for impairment.

The low value and short-term lease exemptions have been applied. The associated lease payments are expensed to the income statement as they are incurred.

Intangible assets - Computer software
The cost of acquiring computer software is capitalised and amortised on a straight-line basis over its estimated useful 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 cost and net realisable value. Cost is calculated as the weighted average purchase price. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

The Group classifies its financial instruments into one of the categories discussed below, depending on the purpose for which the instrument was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss
This category comprises derivative assets and liabilities. Derivatives are carried in the balance sheet at fair value with changes in fair value recognised in the income statement within net finance costs.

Financial assets measured at amortised cost
Assets measured at amortised cost principally arise from the provision of services to customers (trade receivables) but also incorporate other types of financial assets where the objective is to hold assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Group's financial assets are initially recorded at fair value. After initial recognition, financial assets are measured at amortised cost and comprise trade and other receivables, cash and cash equivalents.

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.

2. Accounting Policies (continued)

Financial instruments *(continued)*

Trade and other receivables
Trade and other receivables do not carry any interest. The Group assesses, on a forward-looking basis, the expected credit losses associated with trade receivables. The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Other financial liabilities
Other financial liabilities include bank borrowings and trade payables. The Group's other financial liabilities are initially recorded at fair value and are subsequently carried at amortised cost.

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 payables
Trade and other payables are not interest bearing. The Group's trade and other payables are initially recorded at fair value and subsequently carried at their amortised cost.

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 the Group incurs in connection with the borrowing of funds.

Revenue
Revenue is principally derived through charges for use of the distribution system (DUoS) levied on electricity suppliers and transmission service charges (TSC) mainly for use of the transmission system levied on System Operator for Northern Ireland (SONI). NIE Networks is a regulated business, earning revenue primarily from an allowed return on its Regulated Asset Base (RAB).

Revenue is recognised when the Group has satisfied its performance obligations in respect of the contract with the customer. Revenue is measured based on the consideration specified in a contract with a customer. The following specific recognition criteria must also be met before revenue is recognised:

Distribution Use of System (DUoS) revenue
DUoS revenue is recognised over time in line with the use of the system by suppliers under the schedule of entitlement set by the Utility Regulator for each tariff period. Any outstanding billed and unbilled usage for DUoS is included within Use of System receivable at the balance sheet date. Revenue includes an assessment of the volume of electricity distributed, estimated using historical consumption patterns.

Transmission service charge revenue
Revenue is earned by maintaining the transmission assets to facilitate the effective operation by SONI. For this fixed price contract, revenue is recognised over time on a straight-line basis in line with the schedule of entitlement set by the Utility Regulator for each tariff period and a Use of System receivable is recognised on the balance sheet.

Public Service Obligation revenue
Included within the Group's operating profit are revenues and costs associated with the Public Service Obligation (PSO) charges which are fully recoverable (including amounts paid under the Northern Ireland Sustainable Energy Programme), albeit there are timing differences between the receipt of revenue / payment of costs and the recovery of those amounts through the PSO charges.

PSO revenue is earned over time in line with the use of system by suppliers under the schedule of entitlement set by the Utility Regulator for each tariff period. In addition to PSO tariff revenues, NIE Networks recognises income received from the Power Procurement Business (PPB) at a point in time as NIE Networks does not have control over the amount or timing of receipt of PPB revenues.

Customers' contributions
Customers' 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 lives of the related assets.

2. Accounting Policies (continued)

Revenue (continued)

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.

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

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

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

Deferred tax is the tax payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements 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.

2. Accounting Policies (continued)

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

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

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

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

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

Critical accounting judgements and key sources of estimation uncertainty

Pensions and other post-employment benefits
The estimation of and accounting for retirement benefit obligations involves judgements made in conjunction with independent actuaries. This involves estimates about uncertain future events including the life expectancy of scheme members, future salary and pension increases and inflation as well as discount rates. The assumptions used by the Group and a sensitivity analysis of a change in these assumptions are described in note 22.

Unbilled debt
Revenue includes an assessment of the volume of electricity distributed but not yet invoiced, 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 IFRS 13. Further detail is provided in note 18.

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.

All of the Group's revenue is derived from contracts with customers.

	2020 **£m**	2019 £m
Revenue:		
Regulated tariff revenue	**254.1**	242.5
Release of customers' contributions	**20.2**	18.1
PPB PSO	**20.2**	6.8
Other unregulated revenue	**7.7**	8.9
	302.2	276.3

Revenue of £302.2m (2019 - £276.3m) includes £23.1m (2019 - £9.6m) recognised at a point in time comprising PPB PSO revenue of £20.2m (2019 - £6.8m) and elements of other unregulated revenue £2.9m (2019 – £2.8m).

As outlined in note 14, the Group does not have contract assets arising from contracts with customers (2019 – none).

The Group's contract liabilities are in the form of payments received on account (note 16) and deferred income in respect of customers' contributions (note 17), both of which relate to amounts charged to customers in respect of connections to the network. Revenue from the release of customers' contributions of £20.0m (2019 - £17.9m) represents revenue recognised during the year which would have been included within contract liabilities in the prior year.

None of the Group's revenue recognised during the year (2019 – none) relates to performance obligations satisfied in prior years.

During the year, four customers accounted for sales revenue totalling £207.5m (2019 – four customers accounted for £191.6m).

Geographical information

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

4. Operating Costs

Operating costs are analysed as follows:

	2020 £m	2019 £m
Employee costs (note 5)	**28.4**	23.4
Depreciation and amortisation	**88.0**	81.7
Other operating charges	**56.1**	60.9
	172.5	166.0

Operating costs include:

	2020 £m	2019 £m
Depreciation charge on property, plant and equipment	**80.2**	74.3
Depreciation on right of use assets	**3.2**	2.9
Amortisation of intangible assets	**5.2**	4.9
Amortisation of grants	**(0.6)**	(0.4)
Cost of inventories recognised as an expense	**0.9**	1.1

Operating costs include:

Auditors' remuneration	2020 £'000	2019 £'000
PricewaterhouseCoopers LLP:		
Fees payable to the Group and Company auditors for the audit of the financial statements	**75.0**	30.0
Fees payable to the Group and Company auditors for other services:		
The audit of the company's subsidiaries pursuant to legislation	**10.0**	4.0
Audit related assurance services	**10.0**	14.0

5. Employees

Employee costs – Group and Company

	2020 £m	2019 £m
Wages and salaries	**52.6**	50.9
Social security costs	**5.5**	5.5
Pension costs		
- defined contribution plans	**7.4**	6.5
- defined benefit plans	**6.5**	6.9
	72.0	69.8
Less: amounts capitalised to property, plant and equipment and intangible assets	**(43.6)**	(46.4)
Charged to the income statement	**28.4**	23.4

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

	Average		Actual headcount as at 31 December	
	2020 Number	2019 Number	2020 Number	2019 Number
Management, administration and support	**317**	298	**320**	306
Electrical services	**888**	906	**880**	910
Employee numbers	**1,205**	1,204	**1,200**	1,216

5. Employees (continued)

Directors' emoluments

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

	2020	2019
	£'000	£'000
Emoluments in respect of qualifying services	**550**	589

Emoluments in respect of qualifying services include deferred remuneration awarded in the current and prior year but payable in future years. There were no amounts payable to directors in respect of termination benefits (2019 - £50,000). No amounts were paid to directors in respect of long-term incentive plans. The Company does not operate any share schemes therefore no directors exercised share options or received shares under long-term incentive schemes during either the current year or the previous year.

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

	2020	2019
	Number	Number
Defined benefit pension scheme	-	-
Defined contribution scheme	2	2

Aggregate contributions by the Company to the Company's defined contribution pension scheme in respect of the directors during the year was £72,381 (2019 - £60,771).

The total remuneration in respect of the highest paid director, which includes all elements of remuneration except the Company's contributions to the Company's defined contribution pension scheme, was as follows:

For the year ended	2020	2019
	£'000	£'000
Emoluments	**257**	266
Total accrued pension at 31 December (per annum)	**-**	-

Contributions by the Company to the Company's defined contribution pension scheme in respect of the highest paid director was £35,960 (2019 - £34,846).

6. Net Finance Costs

	2020	2019
	£m	£m
Finance revenue:		
Bank interest receivable	**0.1**	0.3
Finance costs:		
£400m bond	**(25.5)**	(25.5)
£350m bond	**(8.8)**	(8.8)
Amounts payable to group undertakings (note 26)	**(0.3)**	(0.3)
Lease liabilities	**(0.3)**	(0.3)
	(34.9)	(34.9)
Less: capitalised interest	**-**	-
Total interest charged to the income statement	**(34.9)**	(34.9)
Other finance costs:		
Amortisation of financing charges	**(0.4)**	(0.4)
Total finance costs	**(35.3)**	(35.3)
Net pension scheme interest	**(1.8)**	(2.4)
Net finance costs	**(37.0)**	(37.4)

6. Net Finance Costs (continued)

Funds from Operations (FFO) Interest Cover Ratio

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

	2020 £m	2019 £m
Operating profit	**129.7**	110.3
Add back depreciation and amortisation	**88.0**	81.7
Add back pension administration costs, curtailments and past service credits	**1.1**	1.6
Deduct amortisation of customer contributions	**(20.0)**	(17.9)
Deduct tax paid (including group relief paid)	**(17.1)**	(10.0)
Funds from operations	**181.7**	165.7
Gross interest paid	**(34.9)**	(35.7)
FFO to interest paid (times)	**5.2**	4.6

7. Tax Charge

(i) Analysis of charge during the year

Group Income Statement	**2020 £m**	2019 £m
Current tax charge		
UK corporation tax at 19.0% (2019 – 19.0%)	**15.5**	10.8
Adjustments in respect of previous periods	**(0.2)**	-
Total current income tax	**15.3**	10.8
Deferred tax charge		
Origination and reversal of temporary differences in current year	**2.4**	3.0
Adjustments in respect of previous periods	**(0.1)**	-
Effect of increased rate on opening liability	**11.7**	-
Total deferred tax charge	**14.0**	3.0
Total tax charge for the year	**29.3**	13.8

Tax relating to items credited in other comprehensive income

Deferred tax credit		
Arising on re-measurement losses on pension scheme assets and liabilities	**(3.4)**	(3.8)
Effect of increased rate on opening asset	**(3.3)**	0.0
Deferred tax credit relating to components of other comprehensive income	**(6.7)**	(3.8)

7. Tax Charge (continued)

(ii) Reconciliation of total tax charge

The tax charge in the Group Income Statement for the year is higher than (2019 – same as) the standard rate of corporation tax in the UK of 19.0% (2019 – 19.0%). The differences are reconciled below:

	2020 £m	2019 £m
Profit before tax	**92.7**	72.9
Profit before tax multiplied by the UK standard rate of corporation tax of 19.0% (2019 – 19.0%)	**17.6**	13.8
Tax effect of:		
Impact of deferred tax at increased / (reduced) rate	**11.7**	(0.3)
Other permanent differences / expenses not deductible	**0.3**	0.3
Adjustments in respect of previous periods	**(0.3)**	-
Total tax charge for the year	**29.3**	13.8

(iii) Deferred tax

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

	2020 £m	2019 £m
Deferred tax assets		
Pension liability	**19.9**	17.7
Other temporary differences	**0.2**	0.2
	20.1	17.9
Deferred tax liabilities		
Accelerated capital allowances	**(97.7)**	(88.3)
Held-over losses on property disposals	**(0.9)**	(0.8)
	(98.6)	(89.1)
Net deferred tax liability	**(78.5)**	(71.2)

Deferred tax has been calculated at 19.0% as at 31 December 2020 (2019 – 17.0%) reflecting the future corporation tax rate enacted at the balance sheet date.

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

	2020 £m	2019 £m
Accelerated capital allowances	**9.4**	0.3
Temporary differences in respect of pensions	**4.5**	2.7
Other temporary differences	**0.1**	-
Deferred tax charge	**14.0**	3.0

8. Profit for the Financial Year

The profit of the Company is £63.4m (2019 - £59.1m). 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 2019	**2,776.9**	**5.1**	**90.1**	**2.9**	**2,875.0**
Additions	120.6	-	11.6	0.3	132.5
At 31 December 2019	**2,897.5**	**5.1**	**101.7**	**3.2**	**3,007.5**
Additions	110.3	-	8.8	0.1	119.2
At 31 December 2020	**3,007.8**	**5.1**	**110.5**	**3.3**	**3,126.7**
Depreciation:					
At 1 January 2019	**1,014.0**	**2.0**	**65.6**	**2.3**	**1,083.9**
Charge for the year	67.2	0.1	6.8	0.2	74.3
At 31 December 2019	**1,081.2**	**2.1**	**72.4**	**2.5**	**1,158.2**
Charge for the year	71.5	0.1	8.4	0.2	80.2
At 31 December 2020	**1,152.7**	**2.2**	**80.8**	**2.7**	**1,238.4**
Net book value:					
At 31 December 2019	1,816.3	3.0	29.3	0.7	1,849.3
At 31 December 2020	**1,855.1**	**2.9**	**29.7**	**0.6**	**1,888.3**

Infrastructure assets include amounts in respect of assets under construction of £77.5m (2019 - £80.4m).

Company

	Infrastructure assets £m	Non-operational land and buildings £m	Fixtures and equipment £m	Vehicles and mobile plant £m	Total £m
Cost:					
At 1 January 2019	**2,778.5**	**5.1**	**90.1**	**2.9**	**2,876.6**
Additions	120.6	-	11.6	0.3	132.5
At 31 December 2019	**2,899.1**	**5.1**	**101.7**	**3.2**	**3,009.1**
Additions	110.3	-	8.8	0.1	119.2
At 31 December 2020	**3,009.4**	**5.1**	**110.5**	**3.3**	**3,128.3**
Depreciation:					
At 1 January 2019	**1,014.8**	**2.0**	**65.6**	**2.3**	**1,084.7**
Charge for the year	67.2	0.1	6.8	0.2	74.3
At 31 December 2019	**1,082.0**	**2.1**	**72.4**	**2.5**	**1,159.0**
Charge for the year	71.5	0.1	8.4	0.2	80.2
At 31 December 2020	**1,153.5**	**2.2**	**80.8**	**2.7**	**1,239.2**
Net book value:					
At 31 December 2019	1,817.1	3.0	29.3	0.7	1,850.1
At 31 December 2020	**1.855.9**	**2.9**	**29.7**	**0.6**	**1,889.1**

Infrastructure assets include amounts in respect of assets under construction of £77.5m (2019 - £80.4m).

10. Right of Use Assets and Lease Liabilities

Group and Company

	Land and Buildings £m	Vehicles £m	Total £m
Cost:			
Opening balance adjustment on adoption of IFRS 16	7.4	4.6	12.0
Additions	0.2	2.6	2.8
At 31 December 2019	**7.6**	**7.2**	**14.8**
Additions	1.0	2.0	3.0
Disposals	-	-	-
At 31 December 2020	**8.6**	**9.2**	**17.8**
Depreciation:			
At 1 January 2019	-	-	-
Charge for the year	0.7	2.2	2.9
At 31 December 2019	**0.7**	**2.2**	**2.9**
Charge for the year	0.9	2.3	3.2
At 31 December 2020	1.6	4.5	6.1
Net book value:			
At 31 December 2019	6.9	5.0	11.9
At 31 December 2020	**7.0**	**4.7**	**11.7**
Lease liabilities			
Current	0.7	1.7	2.4
Non-current	6.5	3.0	9.5
	7.2	**4.7**	**11.9**
Lease costs include:			
Depreciation on right-of-use assets (note 4)	0.9	2.3	3.2
Lease liabilities finance cost (note 6)	0.2	0.1	0.3
Expense relating to short-term leases included in operating costs	-	0.3	0.3
	1.1	**2.7**	**3.8**

11. Intangible Assets

Computer software – Group and Company

	2020 **£m**	2019 £m
Cost:		
At 1 January	**112.4**	109.3
Additions	**3.7**	3.1
At 31 December	**116.1**	112.4
Amortisation:		
At 1 January	**93.0**	88.1
Amortisation charge for the year	**5.2**	4.9
At 31 December	**98.3**	93.0
Net book value:		
At 1 January	**19.4**	21.2
At 31 December	**17.8**	19.4

Software assets include £5.1m (2019 - £8.6m) in respect of market and customer software invested in following separation from the Viridian Group.

12. Investments

Company – Investment in subsidiaries

	2020 **£m**	2019 £m
Cost:		
At the beginning and end of the year	**7.9**	7.9

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

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

The principal activity of NIE Finance PLC is the provision of financing services, being the issuer of the £400m and £350m bonds which were on-lent to the Company. Further details of the bond issues are included in note 19.

Dormant subsidiaries
The Company holds 100% of the share capital of Northern Ireland Electricity Limited and NIE Limited. These companies are dormant and the carrying value of these investments as at 31 December 2020 is £nil (2019 - £nil).

13. Inventories

Group and Company	2020 £m	2019 £m
Materials and consumables	**18.3**	14.5
Work-in-progress	**-**	0.3
	18.3	14.8

14. Trade and Other Receivables

Group and Company	2020 £m	2019 £m
Current		
Trade receivables (including unbilled consumption)	**48.1**	46.1
Loss allowance	**(0.6)**	(0.5)
Trade receivables (net of provision)	**47.5**	45.6
Other receivables	**-**	0.2
Prepayments and accrued income	**6.8**	3.6
Amounts owed by fellow subsidiary undertakings (note 26)	**6.3**	3.9
	60.6	53.3

Trade receivables include amounts relating to unbilled consumption of £20.2m (2019 - £19.0m). The largest trade receivable at the year end, due from one customer, is £9.1m (2019 - £7.6m).

Trade receivables include £nil (2019 – nil) in respect of contract assets arising from contracts with customers.

Trade receivables are stated net of an allowance of £0.6m (2019 - £0.5m) for estimated irrecoverable amounts based on the lifetime expected credit loss of the trade receivable referencing the Group's past default experience. There are no allowances for estimated irrecoverable amounts included in 'amounts owed by fellow subsidiary undertakings.

Group and Company	2020 £m	2019 £m
At the beginning of the year	**0.5**	0.7
Increase in allowance	**0.2**	-
Bad debts written off	**(0.1)**	(0.2)
At the end of the year	**0.6**	0.5

The allowance of £0.6m (2019 - £0.5m) reflects individual balances impaired based on past default experience.

The following shows an aged analysis of current trade receivables for the Group and Company:

	2020 £m	2019 £m
Within credit terms:		
Current	**44.1**	42.1
Past due but not impaired:		
Less than 30 days	**0.4**	0.3
30 - 60 days	**0.2**	0.2
60 - 90 days	**1.0**	0.9
+ 90 days	**1.8**	2.1
	47.5	45.6

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.

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. Trade receivables are denominated in Sterling (£). With the exception of certain public bodies, payments in relation to new connections or alterations are received in advance of the work being carried out. Payments received on account are disclosed in note 16 to the financial statements. The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables.

15. Cash and Cash Equivalents

Group and Company

	2020 £m	2019 £m
Cash at bank and in hand	**4.5**	9.0
Short term deposits	**17.0**	-
	21.5	9.0

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are placed 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.

16. Trade and Other Payables

	Group		Company	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Trade payables	**15.0**	15.0	**15.0**	15.0
Payments received on account	**19.3**	22.5	**19.3**	22.5
Amounts owed to fellow subsidiary undertakings (note 26)	**1.7**	7.7	**1.7**	7.7
Amounts owed to subsidiary undertakings	**-**	-	**9.2**	9.2
Tax and social security	**26.4**	4.7	**26.4**	4.7
Accruals	**19.0**	17.8	**19.0**	17.8
Other payables	**3.2**	3.3	**3.2**	3.3
	84.6	71.0	**93.8**	80.2

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

17. Deferred Income

Group and Company	Grants £m	Customers' contributions £m	Total £m
Current	0.5	18.1	18.6
Non-current	4.4	507.8	512.2
Total at 1 January 2019	**4.9**	**525.9**	**530.8**
Receivable	-	22.8	22.8
Released to income statement	(0.4)	(18.1)	(18.5)
Current	0.3	18.8	19.1
Non-current	4.2	511.8	516.0
Total at 31 December 2019	**4.5**	**530.6**	**535.1**
Receivable	-	25.7	25.7
Released to income statement	(0.6)	(20.2)	(20.8)
Current	**0.4**	**20.9**	**21.3**
Non-current	**3.5**	**515.2**	**518.7**
Total at 31 December 2020	**3.9**	**536.1**	**540.0**

18. Derivative Financial Instruments

Group and Company - Interest rate swaps	2020 £m	2019 £m
Current assets	**19.0**	14.4
Non-current assets	**513.0**	492.2
	532.0	506.6
Current liabilities	**(19.0)**	(14.4)
Non-current liabilities	**(513.0)**	(492.2)
	(532.0)	(506.6)

The Company has held a £550m portfolio of inflation-linked interest rate swaps (the RPI 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.

The RPI swaps were originally put in place by the Viridian Group (the Group's previous parent undertaking) in 2006 to better match NIE Networks' debt and related interest payments with its inflation-linked regulated assets and associated revenue – in the nature of economic hedge. As part of the acquisition of NIE Networks by ESB in 2010, the swaps were novated to NIE Networks.

18. Derivative Financial Instruments (continued)

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. Nothing was paid in respect of swap accretion in 2020 (2019 – £nil). From 2018, future accretion payments are now scheduled to occur every 5 years, with remaining accretion paid on maturity.

At the same time that the restructuring took effect in 2014, the Company entered into RPI-linked interest rate swap arrangements with ESBNI, the immediate parent undertaking of the Company, which have identical matching terms to the restructured swaps. The back-to-back matching swaps with ESBNI ensure that there is no net effect on the financial statements of the Group nor the Company and that any risk to financial exposure is borne by ESBNI. The fair value movements have been recognised in finance costs in the income statement effectively offsetting the fair value movements of interest rate swap liabilities.

Arising from a negative impact of higher forward RPI rates, partly reduced by a positive impact of higher forward interest rates, fair value movements of £25.4m (negative) occurred in 2020 (2019 – negative fair value movements of £20.4m). These have been recognised in finance costs in the income statement. Given the back-to-back matching swaps with ESBNI, there is a matching positive fair value movement of £25.4m in 2020 (2019 – matching positive fair value movement of £20.4m).

During 2020 the Company made swap interest payments of £15.7m (2019: £13.2m). Due to the back-to-back arrangements, the Company had matching swap interest receipts of £15.7m (2019: £13.2m). Due to the back-to-back arrangements with ESBNI Limited, no net swap interest cost arises on these transactions and therefore they have been netted in finance costs.

In June 2019 the Company novated £66m of the RPI interest linked swaps from one swap counterparty to an existing swap counterparty, thereby reducing the overall number of swap counterparties. Due to the back-to-back arrangements with ESBNI Limited, no gain or loss was recognised within the Company or Group as a result of the novation.

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 2020 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 and 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.

An increase / (decrease) of 0.5% in interest rates would decrease / (increase) the fair value of interest rate swap liabilities by £47.9m / (£50.9m) (2019 - £49.9m / (£53.2m)). 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 £47.9m / (£50.9m) (2019 - £49.9m / (£53.2m)) and thereby offset the exposure to the swap liabilities. These sensitivities are based on an assessment of market rate movements during the period and each is considered to be a reasonably possible range.

19. Other Financial Liabilities

	Group		Company	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Current				
Interest payable on £400m bond	**14.8**	14.8	**-**	-
Interest payable on £350m bond	**1.5**	1.5	**-**	-
Interest payable to group undertaking (note 26)	**0.1**	0.1	**0.1**	0.1
Interest payable to subsidiary undertaking	**-**	-	**16.3**	16.3
Amounts owed to group undertaking (note 26)	**-**	5.0	**-**	5.0
	16.4	21.4	**16.4**	21.4
Non-current				
£400m bond	**399.0**	398.8	**-**	-
£350m bond	**348.6**	348.4	**-**	-
Amounts owed to subsidiary undertaking	**-**	-	**747.6**	747.2
	747.6	747.2	**747.6**	747.2

Loans and other borrowings outstanding are repayable as follows:

Group and Company	**2020**	2019
	£m	£m
In one year or less or on demand	**16.4**	21.4
Between two and five years	**348.6**	-
In more than five years	**399.0**	747.2
	764.0	768.6

Other financial liabilities are held at amortised cost.

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

- 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; and
- the 7 year £350m bond is repayable in 2025 and carries a fixed rate of interest of 2.500% which is payable annually in arrears on 27 October. The bond issue incurred £1.9m of costs associated with raising finance. In back-to-back arrangements, NIE Finance PLC has a loan of £350m with the Company, which was issued net of £1.9m of costs associated with raising finance. Interest is paid on the loan at a fixed rate of 2.500% annually in arrears on 27 October.

The £400m and £350m bonds, which are listed on the London Stock Exchange's regulated market, had fair values at 31 December 2020 of £535.2m (2019 - £526.6m) and £381.5m (2019 - £364.2m) respectively, based on current market prices. The Company's back-to-back loans had a fair value at 31 December 2020 of £535.2m (2019 - £526.6m) and £381.5m (2019 - £364.2m) respectively based on the fair value of the £400m and £350m bonds.

The fair value of bonds as at 31 December 2020 is considered by the Company to fall within the level 1 fair value hierarchy (defined within note 18). There have been no transfers between levels in the hierarchy during the year.

Given that 100% (2019 – 99.3%) of Group and Company borrowings carry fixed interest rates, the Group and Company are not significantly exposed to movements in interest rates during the year.

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

19. Other Financial Liabilities (continued)

At 31 December 2020

	On demand £m	Within 1 Year £m	1 to 5 years £m	More than 5 years £m	Total £m
£400m bond (including interest payable)	**-**	**25.5**	**102.0**	**425.5**	**553.0**
£350m bond (including interest payable)	**-**	**8.8**	**385.0**	**-**	**393.8**
RCF (including interest payable)	**-**	**0.1**	**-**	**-**	**0.1**
Trade and other payables	**19.3**	**38.9**	**-**	**-**	**58.2**
Interest rate swap liabilities	**-**	**19.0**	**518.5**	**-**	**537.5**
Lease Liabilities	**-**	**2.4**	**4.9**	**4.6**	**11.9**
	19.3	**94.7**	**1,010.4**	**430.1**	**1,554.5**

At 31 December 2019 *(Restated)*

	On demand £m	Within 1 Year £m	1 to 5 years £m	More than 5 years £m	Total £m
£400m bond (including interest payable)	-	25.5	102.0	451.0	578.5
£350m bond (including interest payable)	-	8.8	35.0	358.7	402.5
RCF (including interest payable)	-	-	5.0	-	5.0
Trade and other payables	22.5	38.8	-	-	61.3
Interest rate swap liabilities	-	14.5	537.1	-	551.6
Lease Liabilities	-	2.8	5.1	4.0	11.9
	22.5	90.4	684.2	813.7	1,610.8

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

At 31 December 2020

	On demand £m	Within 1 Year £m	1 to 5 years £m	More than 5 years £m	Total £m
Amounts owed to subsidiary undertaking	**-**	**34.3**	**487.0**	**425.5**	**946.8**
Trade and other payables	**19.3**	**48.1**	**-**	**-**	**67.4**
Interest rate swap liabilities	**-**	**19.0**	**518.5**	**-**	**537.5**
RCF (including interest payable)	**-**	**0.1**	**-**	**-**	**0.1**
Lease Liabilities	**-**	**2.4**	**4.9**	**4.6**	**11.9**
	19.3	**103.9**	**1,010.4**	**430.1**	**1,563.7**

At 31 December 2019 *(Restated)*

	On demand £m	Within 1 Year £m	1 to 5 years £m	More than 5 years £m	Total £m
Amounts owed to subsidiary undertaking	-	34.3	137.0	809.7	981.0
Trade and other payables	22.5	48.0	-	-	70.5
Interest rate swap liabilities	-	14.5	537.1	-	551.6
RCF (including interest payable)	-	-	5.0	-	5.0
Lease Liabilities	-	2.8	5.1	4.0	11.9
	22.5	99.6	684.2	813.7	1,620.0

Inflation-linked interest rate swaps have been restated to reflect a mandatory break in June 2022 on the RPI linked interest rate swap portfolio which brings forward all of the £361.8m of contractual cashflows that were previously presented as payable over more than five years. As a result, amounts payable within 1 to 5 years increased by £361.8m to £537.1m. The swaps have maturities in 2026, 2031 and 2036. At 31 December 2020, negotiations to extend the mandatory break are at an advanced stage. Certain corresponding amounts have been adjusted so that they are directly comparable with the amounts shown in respect of the current financial year.

20. Analysis of Net Debt

Group	At 1 January 2020 £m	Cash flow £m	Non-cash movement £m	At 31 December 2020 £m
Cash and cash equivalents	**9.0**	12.5	-	**21.5**
Interest payable on £400m bond	**(14.8)**	25.5	(25.5)	**(14.8)**
Interest payable on £350m bond	**(1.6)**	8.8	(8.8)	**(1.6)**
Interest payable to group undertaking	**(0.1)**	0.3	(0.3)	**(0.1)**
£400m bond	**(398.8)**	-	(0.2)	**(399.0)**
£350m bond	**(348.4)**	-	(0.2)	**(348.6)**
Amounts owed to group undertaking	**(5.0)**	5.0	-	**-**
Lease liabilities	**(11.9)**	3.2	(3.2)	**(11.9)**
	(771.6)	55.3	(38.2)	**(754.5)**

Company	At 1 January 2020 £m	Cash flow £m	Non-cash movement £m	At 31 December 2020 £m
Cash and cash equivalents	**9.0**	12.5	-	**21.5**
Interest payable to group undertaking	**(0.1)**	0.3	(0.3)	**(0.1)**
Interest payable to subsidiary undertaking	**(16.4)**	34.3	(34.3)	**(16.4)**
Amounts owed to group undertaking	**(5.0)**	5.0	-	**-**
Amounts owed to subsidiary undertaking	**(747.2)**	-	(0.4)	**(747.6)**
Lease liabilities	**(11.9)**	3.2	(3.2)	**(11.9)**
	(771.6)	55.3	(38.2)	**(754.5)**

21. Provisions

Group and Company	Environment £m	Liability and damage claims £m	Total £m
Current	0.6	3.2	3.8
Non-current	1.0	3.0	4.0
Total at 1 January 2019	1.6	6.2	7.8
Utilised in the year	-	(1.3)	(1.3)
Charged to income statement	-	0.7	0.7
Current	0.6	2.8	3.4
Non-current	1.0	2.8	3.8
Total at 1 January 2020	1.6	5.6	7.2
Utilised in the year	-	(0.7)	(0.7)
Charged to income statement	-	0.1	0.1
Current	**0.6**	**2.3**	**2.9**
Non-current	**1.0**	**2.7**	**3.7**
Total at 31 December 2020	**1.6**	**5.0**	**6.6**

21. Provisions (continued)

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

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

22. 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 8% 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 of the scheme.

As the benefits paid to members of the Options section of the scheme are directly related to the value of assets for Options, there are no funding issues with this section of the scheme. The remainder of this note is therefore in respect of the Focus section of the scheme.

Under the Focus section of 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 2017 and showed a deficit of £136.9m. The formal valuation as at 31 March 2020 is currently ongoing. The Company is paying deficit contributions of £17.2m per annum (increasing in line with inflation) from 1 April 2018. The Company also pays contributions of 39.6% of pensionable salaries in respect of Focus employees currently employed in the company (active members of the scheme) plus £77,500 monthly expenses, 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 18% of the liabilities are attributable to current employees, 5% to former employees and 77% 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 (2019 – 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 is likely to 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.

22. Pension Commitments (continued)

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.

Mercer Limited, NIE Networks' actuary, has provided a valuation of Focus under IAS 19 as at 31 December 2020 based on the following assumptions (in nominal terms) and using the projected unit credit method:

	2020	2019
Rate of increase in pensionable salaries (per annum)	**3.0%**	2.75%
Rate of increase in pensions in payment (per annum)	**2.3%**	2.10%
Discount rate (per annum)	**1.3%**	2.00%
Inflation assumption (CPI) (per annum)	**2.3%**	2.10%
Life expectancy:		
Current pensioners (at age 60) – males	**26.7 years**	26.3 years
Current pensioners (at age 60) – females	**28.9 years**	28.7 years
Future pensioners (at age 60) – males	***28.1 years**	*27.9 years
Future pensioners (at age 60) – females	***30.4 years**	*30.3 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 2020 shows a net pension liability (before deferred tax) of £104.9m (2019 - £103.9m). The table below shows the possible (increase) / decrease in the net pension liability that could result from changes in key assumptions:

	Increase in assumption		**Decrease in assumption**	
	2020 £m	**2019 £m**	**2020 £m**	**2019 £m**
0.5% change in rate of increase in pensionable salaries	**(7.9)**	(9.3)	**7.8**	9.1
0.5% change in rate of pensions in payments	**(79.4)**	(67.2)	**75.6**	64.2
0.5% change in annual discount rate	**94.2**	78.9	**(99.8)**	(83.2)
0.5% change in annual inflation rate (CPI)	**(88.8)**	(77.3)	**84.2**	73.6
1-year change in life expectancy	**(52.2)**	(46.9)	**52.2**	46.9

Assets and Liabilities

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

	Value at 31 December 2020 £m	Value at 31 December 2019 £m
Equities – quoted	**272.9**	215.1
Bonds – quoted	**247.7**	312.8
Diversified growth funds – quoted	**383.6**	371.8
Multi-asset credit investments	**277.2**	215.0
Cash	**22.6**	12.3
Total market value of assets	**1,204.0**	1,127.0
Actuarial value of liabilities	**(1,308.9)**	(1,230.9)
Net pension liability	**(104.9)**	(103.9)

22. Pension Commitments (continued)

Changes in the market value of assets – Group and Company

	2020 £m	2019 £m
Market value of assets at the beginning of the year	**1,127.0**	1,054.7
Interest income on scheme assets	**22.1**	28.9
Contributions from employer	**25.1**	25.0
Contributions from scheme members	**0.3**	0.4
Benefits paid	**(66.5)**	(67.9)
Administration expenses paid	**(2.2)**	(1.5)
Re-measurement gains on scheme assets	**98.2**	87.4
Market value of assets at the end of the year	**1,204.0**	1,127.0

Changes in the actuarial value of liabilities – Group and Company

	2020 £m	2019 £m
Actuarial value of liabilities at the beginning of the year	**1,230.9**	1,152.2
Interest expense on pension liability	**23.9**	31.3
Current service cost	**5.4**	5.3
Curtailment costs	**0.2**	0.1
Past service credit	**(1.3)**	-
Contributions from scheme members	**0.3**	0.4
Benefits paid	**(66.5)**	(67.9)
Effect of changes in demographic assumptions	**5.1**	-
Effect of changes in financial assumptions	**136.1**	112.1
Effect of experience adjustments	**(25.2)**	(2.6)
Actuarial value of liabilities at the end of the year	**1,308.9**	1,230.9

The curtailment loss (cost) arising in 2020 and 2019 reflects past service costs associated with employees leaving the company under a restructuring exit arrangement.

Net past service credit of £1.3m in 2020 (2019 - £nil) reflects changes to member benefits arising from a clarification of the law in respect of Guaranteed Minimum Pension Equalisation for male and female members, and the completion of a bulk pension increase exchange exercise offered to eligible members during the year.

The Group expects to make contributions of approximately £24.9m to Focus in 2021.

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)

	2020 £m	2019 £m
Current service cost	**(5.4)**	(5.3)
Administration expenses paid	**(2.2)**	(1.5)
Curtailment costs	**(0.2)**	(0.1)
Past service credit	**1.3**	-
Total operating charge	**(6.5)**	(6.9)

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.

22. Pension Commitments (continued)

Analysis of the amount charged to net pension scheme interest

	2020 £m	2019 £m
Interest income on scheme assets	**22.1**	28.9
Interest expense on liabilities	**(23.9)**	(31.3)
Net pension scheme interest expense	**(1.8)**	(2.4)

The actual return on Focus assets was a gain of £120.3m for the Group and Company (2019 - gain of £116.3m for the Group and Company).

Analysis of amounts recognised in the Statement of Comprehensive Income

	2020 £m	2019 £m
Re-measurement gains on scheme assets	**98.2**	87.4
Actuarial losses on scheme liabilities	**(116.0)**	(109.5)
Net losses	**(17.8)**	(22.1)

The cumulative actuarial losses recognised in the Group and Company Statements of Comprehensive Income since 1 April 2004 are £172.3m and £174.4m respectively (2019 – £154.5m and £156.6m 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.

23. Share Capital and Equity

	Group		Company	
	2020 £m	2019 £m	**2020 £m**	2019 £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	**358.1**	323.8	**357.6**	323.3
	425.0	390.7	**424.5**	390.2

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:	2020 £m	2019 £m
145,566,431 ordinary shares of 25p each	**36.4**	36.4

23. Share Capital and Equity (continued)

Dividend

The following dividends were paid by the Company

	2020	2019
	£m	£m
12.4 pence per allotted share (2019 – 16.3 pence)	**18.0**	23.7

24. Commitments and Contingent Liabilities

(i) Capital commitments

At 31 December 2020 the Group and Company had contracted future capital expenditure in respect of property, plant and equipment of £16.6m (2019 - £16.5m) and computer assets of £4.3m (2019 - £4.5m).

(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 21) 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.

25. Financial Commitments

In June 2011 and September 2018 NIE Finance PLC, a subsidiary undertaking of the Company, issued £400m and £350m bonds respectively on behalf of the Company. The Bonds have 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 and £350m bonds are unconditionally and irrevocably guaranteed by the Company.

26. Related Party Disclosures

Remuneration of key management personnel

The compensation paid to key management personnel is set out below. Key management personnel of the Group comprise the directors of the Company and the executive team.

	2020	2019
	£m	£m
Salaries and short-term employee benefits	**1.3**	1.5
Post-employment benefits	**0.3**	0.4
Termination benefits	**-**	0.1
	1.6	2.0

Parent undertaking

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

Related parties of the Company also include the subsidiaries listed in note 12.

26. Related Party Disclosures (continued)

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

	Interest charges £m	Revenue from related party £m	Charges from related party £m	Other transactions with related party £m	Amounts owed by related party at 31 December £m	Amounts owed to related party at 31 December £m
Year ended 31 December 2020						
ESB	**(0.3)**	**-**	**-**	**-**	**-**	**(1.4)**
ESB subsidiaries	**-**	**38.4**	**(2.8)**	**(18.0)**	**6.3**	**(0.4)**
	(0.3)	**38.4**	**(2.8)**	**(18.0)**	**6.3**	**(1.8)**
Year ended 31 December 2019						
ESB	(0.3)	-	-	-	-	(5.1)
ESB subsidiaries	-	31.1	(3.3)	(23.7)	3.9	(7.7)
	(0.3)	31.1	(3.3)	(23.7)	3.9	(12.8)

Transactions with ESB group undertakings are determined on an arm's length basis and outstanding balances with ESB group undertakings are unsecured. Interest charges and amounts owed to ESB relate to the RCF provided by ESB. Revenue from and amounts owed by ESB subsidiaries primarily arise from regulated sales to ESB subsidiaries. Charges from and amounts owed to ESB subsidiaries primarily arise from services purchased. Other transactions with related parties shown above relate to dividends paid to the shareholder. Amounts in relation to the back-to-back swaps with ESBNI Limited are detailed in note 18.

Other related parties

During the year the Group and Company contributed £32.5m (2019 - £31.5m Group and Company) to NIEPS in respect of Focus and Options employer contributions, including an element of deficit repair contributions in respect of Focus.

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