Northern Ireland Electricity Networks

ANNUAL REPORT & ACCOUNTS

12 months ended 31 December 2017

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2017 AT A GLANCE

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- 7% increase in network investment reflecting ramp up in work to deliver the physical outputs required under the RP5 price control
- Renewable generation connected to the electricity network reached over 1.4GW with 0.4GW connected during 2017
- Continued focus on customer service through the “Think Customer” initiative with a 4% reduction in customer complaints
- Significant progress in preparing for full connections market opening on 28 March 2018
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- Operating profit of £94.9m and profit after tax of £44.7m
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- Acceptance and commencement of the RP6 price control

GROUP STRATEGIC REPORT

The directors present their annual report and accounts for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (the Group) for the year ended 31 December 2017.

The Board of directors of the Group who served during the year are outlined in the Group Directors' Report on page 22.

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

The Group accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS.

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

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) 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 renewable generation customers to the transmission and distribution networks; and
- providing electricity meters in Northern Ireland and providing metering data to suppliers and market operators to enable wholesale and retail 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). Under its Transmission and Distribution licences NIE Networks is required to develop, maintain and, in the case of the distribution system, operate an efficient, co-ordinated and economical system of:

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

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 870,000 consumers via a number of substations. This network sits between electricity generators and consumers. NIE Networks does not buy or sell electricity, or send any bills to electricity consumers (apart from charges for new connections to the network).

During the year an estimated 7.7TWh of electricity was transmitted and distributed to consumers in Northern Ireland. There are 2,200km of transmission lines, 47,000km of distribution lines and over 300 major substations. NIE Networks' transmission system is connected to that of the RoI through a 275kV interconnector and to that in Scotland via the Moyle Interconnector. There are also two standby 110kV connections to the RoI.

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 greater than 5MW distribution connections has been open to competition since May 2016. For 'contestable' elements of these connections, customers can choose whether to accept a quotation from NIE Networks or to engage an accredited Independent Connection Provider (ICP) to construct the connection.

NIE Networks is completing its preparations for market opening of distribution connections lower than 5MW on 28 March 2018.

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 and charges for transmission services (mainly for use of the transmission system) levied on SONI. Revenue through charges for new demand and generation connections is received from the customer in accordance with the Statement of Connection Charges, which is revised at least annually.

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.

The price control in respect of the fifth regulatory period since privatisation (RP5) applied for the period from 1 April 2012 to 30 September 2017. 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 £697 million for capital investment and £456 million in respect of operating costs (2017-18 prices). The 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 3.18% 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 primarily by obligations under its Transmission and Distribution Licences. Its vision is to be a high-performing electricity networks company that makes a positive contribution to the local community. Its mission is to distribute electricity in a safe, reliable, efficient and environmentally sound manner. The Group works to its stated values concerning safety, employees, customer service, innovation, integrity, efficiency and community.

NIE Networks' strategic objectives are:

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

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

Financial Review

Financial Key Performance Indicators (KPIs)

Operating Profit
The Group's operating profit as reported in the accounts was £94.9m for the year to 31 December 2017, an increase of £3.2m on the previous year. Group revenue of £261.1m reflects an increase of £14.3m from the previous year primarily due to a change of accounting estimate in respect of revenue from customer connections, together with the phasing of RP5 tariffs. Group operating costs of £166.2m increased by £11.1m on the previous year primarily due to higher depreciation charges reflecting the continual investment in the network, together with higher employee costs owing to increased current service costs for defined benefit pensions.

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. The ratio, as shown in note 6 to the accounts, at 3.3 times for the year (2016 - 3.2 times) is above the target level of 3.0 times and confirms the Group's continuing financial strength.

Net Assets
The Group's net assets of £327.4m increased by £33.5m on the previous year largely reflecting profit after tax of £44.7m together with re-measurement gains (net of tax) of £6.8m on net pension scheme liabilities partly offset by a dividend paid to the shareholder during the year of £18.0m.

Cash Flow
Cash and cash equivalents increased by £1.9m during the year reflecting net cash flows from operating activities of £132.8m together with a drawdown on the Group's Revolving Credit Facility (RCF) of £94.9m, partly offset by investing activity out flows of £207.8m and a dividend paid of £18.0m. Cash flows from operating activities of £132.8m are £53.6m lower than the previous year largely reflecting a reduction in trade and other payables as a result of payments on account decreasing as the pipeline of generation connections nears completion.

Financial Risk Management

The main financial risks faced by the Group relate to liquidity, funding, investment and financial risk, including interest rate and counterparty credit risk. The Group's objective is to manage financial risks at optimum cost. The Group employs a continuous forecasting and monitoring process to manage risk.

Capital Management and Liquidity Risk
The Group is financed through a combination of equity and debt finance. Details in respect of the Group's equity are shown in the Statement of Changes in Equity and in note 22 to the accounts. The Group's debt finance at the year end comprised bonds of £175.0m and £400.0m (£174.8m and £398.5m respectively net of issue costs) which are due to mature in September 2018 and June 2026 respectively and £114.0m drawn down from a £150.0m RCF from ESB which is due to mature in September 2018.

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 - 18 months. In light of the maturity of the £175.0m bond and £150.0m RCF in September 2018, the Group is currently assessing longer term financing options in conjunction with its parent, ESB. The Group is satisfied that it will have access to funds in advance of the maturity of existing facilities as it has secured an option to extend the existing £150.0m RCF from ESB to £400.0m with maturity deferred until March 2019.

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 investment grade credit rating from Standard & Poor's during the year.

Interest Rate Risk
The £175.0m and £400.0m bonds are denominated in sterling and carry fixed interest rates of 6.875% and 6.375% respectively. The RCF is denominated in sterling and carries a floating interest rate based on LIBOR.

Given that 83% of the Group's total borrowings carry a fixed interest rate, the Group does not consider that it is significantly exposed to interest rate risk.

Since December 2010, NIE Networks has held a £550m portfolio of RPI linked interest rate swaps. 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. The swaps are considered to be economic hedges for NIE Networks' regulated revenue and asset base. 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 maintain the back to back matching put in place with ESBNI Limited (ESBNI) in 2011, 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 accounts 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 17 to the accounts.

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

Year to 31 December	**2017** **£m**	2016 £m
Cash and cash equivalents	**11.2**	9.3
Trade and other receivables (excluding prepayments and accrued income)	**55.2**	58.4
Other financial assets – current and non-current	**579.5**	598.0
	645.9	665.7

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 15 to the accounts.

Other financial assets comprise RPI linked interest rate swap arrangements entered into with ESBNI 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 accounts.

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 with elements of existing debt finance expected to mature in September 2018.

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

Operational Review

Operational KPIs

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

KPIs – Year to 31 December	**2017**	2016
Health & Safety:		
Lost time incidents *(number of)*	**1**	1
Network Performance:		
Customer Minutes Lost (CML)		
• Planned CML *(minutes)*	**62**	65
• Fault CML *(minutes)*	**57**	56
Customer Service:		
Overall standards – defaults *(number of)*	**None**	None
Guaranteed standards – defaults *(number of)*	**1**	None
Stage 2 complaints to the Consumer Council *(number of)*	**2**	None[1]
Connections:		
Customer demand connections completed *(number of)*	**5,557**	5,984
Renewable generation connected *(MW)*:		
• Small scale (< 5MW)	**71**	74
• Large scale (> 5MW)	**287**	160
Sustainability:		
Waste recycling rate *(%)*	**98**	98

[1] Subsequent to publication of the 2016 Annual Report and Accounts, the Company successfully appealed one Stage 2 complaint therefore one complaint disclosed in the prior year has been restated to 'None'.

Health & Safety

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

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

The target for lost time incidents continues to be set at zero: there was one incident during the year (2016 - one) caused by the failure of a mobile elevated work platform which resulted in lost working time for an employee.

Safety Engineers are aligned with organisational structures on a 'Business Partner' relationship which facilitates integration of skills and allows influence and support. During 2017 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 improving safety performance. The quality of reports continued to improve with approximately 58% of incidents classed as "good catch". 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;

- formalisation of all incident investigation procedures with appropriate monthly reporting;

- completion of process safety workshops examining maintenance and communication processes with recommendations to be implemented during 2018;

- three external audits were completed with zero non-conformances;

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

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

- site safety inspections continued throughout the year with over 4,000 inspections completed: the focus of the inspections was coaching and encouraging good site behaviours while ensuring compliance was achieved. In line with the Leadership and Engagement principles these were completed by a range of staff including the Managing Director, Executive Committee members, business unit managers and front-line managers;

- continued focus on 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 to coincide with "European Health & Safety Week".

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

In recognition of its strong safety focus, NIE Networks won two awards at the All-Ireland Occupational Safety Awards in 2017.

Network Performance and Customer Service

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

Against the backdrop of the ramp up in the network investment programme during 2017, NIE Networks continued to manage outages required for essential maintenance and development in order to minimise the occasions and length of time that customers are off supply. Performance of the distribution network is measured in its availability – the number of minutes lost per customer (CML).

CML due to planned outages is the average number of minutes lost per customer for the period through pre-arranged shutdowns for maintenance and construction: the number of planned CML for 2017 was 62 minutes (2016 - 65 minutes). The average number of CML due to faults on the distribution network in 2017 was 57 minutes, a slight increase on the previous year (2016 - 56 minutes) reflecting less favourable weather conditions during the early part of the year.

The Utility Regulator sets overall and guaranteed standards of performance. The majority apply to services provided, for example the timely restoration of customers' supplies following an interruption, and prescribed times for responding to customers' voltage complaints. All of the overall standards were achieved. In 2017 there was one default against Guaranteed Standards of Performance for customer service activities delivered (2016 - none). During the year 91.5% (2016 – 90%) of electricity supplies were restored within three hours, within the regulatory standard of 87%.

NIE Networks continues to test and confirm the robustness of its emergency response capabilities during severe weather events in order to effectively restore supply to all customers. The significant commitment from all staff helps to ensure that NIE Networks 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 three occasions (wind and gales in February, a lightning storm in August, and Storm Ophelia in October) where adverse weather caused damage to the network and affected thousands of customers supplies. 98% of customers were restored within 24 hours.

The focus on reducing the number of avoidable complaints continued and the number of complaints received from customers was 4% 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. During the year two complaints were taken up by the CCNI on behalf of customers (Stage 2 Complaints to the CCNI) (2016 – none).

Across NIE Networks there has been a focus on reviewing customer service activities in order to improve delivery in all areas. Identified improvements will continue throughout 2018 as part of the Group's "Customer Service Action Plan" including a multi-channel approach to communication with the NIE Networks Facebook and Instagram channels launched during 2017.

Connections

NIE Networks' Connections business provides safe, secure, reliable and timely electricity connections within Northern Ireland. The purpose of the Connections business is to provide an excellent customer experience through the connection process and to provide least cost technically acceptable connections. Focus throughout 2017 remained on improving customer service throughout the connections process and connecting as much generation capacity as possible given the transmission capacity constraints on the network.

The majority of connections work undertaken relates to demand or load connections, covering: the provision of new connections to homes, businesses, farms and housing developments; altering existing connections including replacing electrical equipment, installing new earthing or diverting equipment; and increasing or decreasing the load of electrical equipment to cater for new requirements. The number of applications during the year for these types of "demand" connections was lower than the previous year. The number of demand connections completed during the year was also lower than in 2016.

During 2017, the Connections business was restructured in response to evolving customer needs with process and technology improvements, and increased customer and stakeholder engagement. Average life cycle times from initial job registration to connection to the network reduced by around 10%. This was achieved at a time when significant volumes of generation connections were also delivered.

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

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

- Small scale generation (typically 20kW – 5MW) takes the form of single wind turbines, anaerobic digesters, photovoltaic and hydro installations connected to the distribution network; and

- Micro-generation (4 - 12kW) is typically photovoltaic panels on domestic rooftops and normally connects directly to customer premises.

Significant progress was made during 2017 in completing generation connections in line with developers' requirements to meet accreditation deadlines for the Northern Ireland Renewables Obligation (NIRO) scheme.

During 2017, 287MW of large scale generation was connected to the network, taking the total large scale generation connected to the network to 1,105MW (76% of total renewable generation capacity). A substantial proportion of large scale generation (150MW) was connected through windfarm clusters at Gort, Rasharkin and Tremoge. Windfarm clusters are 110kV connection nodes established in the vicinity of a number of windfarm projects to enable more efficient connection on a 'hub and spoke' basis with associated environmental, technical and operational benefits. In overall terms they reduce the route length required to connect all projects and enable additional capacity to be connected.

During 2017, 71MW of small scale generation was connected to the network, taking the total connected for small scale generation to 260MW (18% of total renewable generation capacity). A further 37MW is committed and is at various stages of the connection process. Micro-generation connections to the network increased to 82MW (6% of total renewable generation capacity) including 3MW added in 2017.

With over 1.4GW of renewable generation connected to the network by the end of 2017 and over 0.3GW of further capacity committed to be connected, the total connected renewable capacity is expected to reach more than 1.7GW by 2020.

NIE Networks continues to seek ways to connect generators to the network and, following consultation with the industry to assess how best to maximise the uptake of remaining capacity on the transmission and distribution networks, a decision paper was published jointly by NIE Networks and SONI during 2016. Since then 185 generation connection offers totalling circa 250MW have been issued.

Due to the lack of further capacity on the transmission and distribution networks, NIE Networks initiated a joint consultation with SONI in January 2018 to develop alternative approaches to conventional investment. The aim of this consultation is to bring forward solutions which are commercially viable for developers and facilitate the adoption of SMART solutions to connect additional renewable generation. The consultation closes in March 2018 with a decision paper expected to be published before the end of June 2018.

The market for greater than 5MW distribution connections has been open to competition since May 2016. For 'contestable' elements of these connections, customers can choose whether to accept a quotation from NIE Networks or to engage an accredited Independent Connection Provider (ICP) to construct the connection.

NIE Networks is completing its preparations for market opening of distribution connections lower than 5MW on 28 March 2018 which has involved significant IT development, implementation of new processes and staff training to facilitate competition.

Sustainability

NIE Networks' Environmental Policy commits to protecting the environment and mitigating the impact of its activities upon the environment. The environmental management system is accredited to ISO 14001 and transitioned to the new version of the standard in 2017. It is designed to ensure compliance with all relevant legislative and regulatory requirements and, where practical and economically viable, NIE Networks seeks to develop standards in excess of such requirements, introducing best practice solutions where possible. The annual environmental business plan sets out detailed plans 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 2017 there was continued focus on each of the following areas:

- reducing the number of environmental incidents, with a 23% reduction achieved, and NIE Networks' remediation process deemed 'best practice' by the British Standards Institute;
- waste management targets with the recycling rate for all hazardous and non-hazardous waste (excluding excavation from roads and footpaths, civil projects excavation and asbestos removal) remaining high at 98% (2016 – 98%); and
- improving the management of biodiversity working closely with Ulster Wildlife.

In Business in the Community's 2017 Northern Ireland Environmental Benchmarking Survey NIE Networks retained its top level Platinum Award, again performing well in excess of the utility sector average.

Network Investment

During the year the level of capital investment undertaken increased to successfully deliver the physical outputs specified in the RP5 network investment plan. In 2017 NIE Networks invested a total of £108.9m (2016 - £101.4m) (net of customer contributions) in transmission and distribution networks, representing an increase of 7% on the prior year. The investment was primarily in relation to the refurbishment and replacement of worn transmission and distribution assets to maintain reliability of supply and ensure the safety of the network.

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

Other key investments during the year included:

- completion of refurbishment works at three 110/33kV substations;
- substantial completion of three 275/110kV substations (at Kells, Castlereagh and Tandragee); and
- completion of a 50km 110kV circuit between Tamnamore and Omagh required to reinforce the existing transmission overhead line infrastructure in Northern Ireland to facilitate the flow of power from renewable generation in the west to the demand centres in the east of Northern Ireland.

Market Operations

NIE Networks continued to achieve full compliance with its regulatory obligations in respect of customer appointments for metering work. Each year approximately three million visits to customer properties are made to take meter readings and, in 2017, NIE Networks continued to meet its regulatory standard to obtain actual meter readings from 99.5% of all customers once per year, therefore ensuring that electricity consumption is calculated accurately and minimising the number of estimated bills issued by electricity suppliers.

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

A major programme to replace meters that have reached the end of their life cycle continued during 2017 with NIE Networks replacing 101,000 meters during the year in line with programme targets. This programme has involved the replacement of circa 25% of customers' meters since it commenced in 2015.

People

NIE Networks' resourcing strategy is to use highly skilled insourced labour for core strategic activities working in partnership with bought-in-services as appropriate. This ensures that knowledge and skills are retained, allows greater agility and flexibility to redeploy employees where needed and builds a strong culture of engaged employees motivated to deliver business objectives. The organisation continues to face a number of demanding challenges. Organisation management structures have continued to be streamlined creating development opportunities for all levels of employees. The number of employees at the end of 2017 was 1,273 (2016 – 1,277).

Against the backdrop of the RP6 price control determination and cost reduction challenges due to market opening in NIE Networks' Connections business, management considered a range of cost reduction initiatives including a restructuring voluntary exit arrangement under which 61 employees left the business during 2017.

On 5 February 2018, management tabled further cost reduction proposals as part of a consultation with employee representatives which aims to reduce the number of job roles by 90 across the Group (7% of the workforce) and align future pay increases with RP6 allowances.

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

NIE Networks is committed to a working environment which enables employees to realise their maximum potential and to be appropriately challenged and fully engaged in the business, with opportunities for skills enhancement and personal development. Human Resources policies are aligned with key business drivers including: performance and productivity improvement; clearly defined values and behaviours; a robust performance management process; and a strong commitment to employee development.

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

NIE Networks continues to promote the professional development of its engineers through the IET Professional Registration Scheme and proactively encourages and supports more employees to become IET members and Chartered Engineers. During 2017 14 engineers and technicians 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 fair employment, sex discrimination, equal pay, disability discrimination, race discrimination, sexual orientation and age discrimination legislation. NIE Networks is committed to providing equality of opportunity for all employees and job applicants with ongoing monitoring to ensure that equality of opportunity is provided in all employment practices. The Group uses outreach initiatives to actively seek female applications in male dominated job roles.

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. An employee health and wellbeing policy covering stress management is in place, with specific policies on mental health, alcohol and drug-related problems and non-smoking. External occupational health and counselling services are available for all employees. The Health and Wellbeing Forum and champions across the business rolled out various initiatives during the year to provide additional guidance and support to enable employees to proactively manage their own health and wellbeing. Sickness absence during the year was 3.1%, an increase of 0.5% from the previous year owing to long-term sickness absences.

Employee Engagement
NIE Networks won the 2017 UK Chartered Institute of Personnel and Development Award for Employee Engagement Strategy in recognition of its efforts in engaging with its employees. NIE Networks places considerable emphasis on employee participation and engagement. The Employee Engagement Board ensures, through local representatives of employee Focus Groups, that there is a strong focus on continued engagement. Company wide employee forums focussing on the areas of Health & Wellbeing, Digital Strategy, Innovation and Employee Voice continue to grow.

Employee relations are positive and constructive. During 2017 the monthly Employee Relations Forums, comprising management and trade union representatives, have progressed a wide range of employee relations issues. More formal meetings are held regularly between senior managers and representatives of employees and their trade unions to discuss more complex issues.

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

Investors in People
During 2017 NIE Networks was accredited with Gold level following assessment against the Investors in People Sixth Generation Standard.

Looking Forward

Key priorities for 2018:

- ensuring the health and safety of employees, contractors and the general public will continue to be the top priority: achieving a zero-harm work environment through implementation of injury and accident-free initiatives;
- delivering the cost reduction plan against the backdrop of the RP6 price control determination and market opening in customer connections;
- securing efficient financing to fund the RP6 programme;
- delivering the generation connections pipeline;
- delivering improved customer service through the continuing "Think Customer" programme;
- opening the connections market to further competition with full market opening on 28 March 2018;
- continued investment in employees to enhance NIE Networks' capability; and
- engaging effectively with key stakeholders.

Risk Management

Risk Management Framework

The Board has overall responsibility for risk management and internal control. The Board ensures that the Group's risk exposure remains proportional to the pursuit of its strategic objectives and longer term stakeholder value. It has adopted a Risk Management Policy and Governance Framework to support its oversight of risk throughout the Group.

The Board delegates responsibility for oversight of risk to the Audit & Risk Committee in accordance with the Committee's Terms of Reference. The Audit & Risk Committee 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. As a regulated utility NIE Networks is prudent in its overall management of the business and has a limited appetite for and tolerance of risk.

The 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.

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.

The Risk Management Policy is reviewed annually by the Board and sets out the high level principles and policy requirements that form the basis of risk management within NIE Networks and also outlines the risk management roles and responsibilities and the main organisational and procedural arrangements that apply to support the effective management of risk. At Executive level, the Risk Management Committee (RMC) oversees and directs risk management in accordance with the approved policy. The RMC comprises a number of Executive Committee members and senior managers and is chaired by the Finance Director. The RMC considers risk assessments carried out by each business unit and the risk status and mitigation strategies are reviewed biannually. The RMC reports on its activities to the Executive Committee, Audit & Risk Committee and the Board throughout the year. The internal audit function reports to the Audit & Risk Committee, independent of management, and has provided independent assurance to the Audit & Risk Committee on the adequacy and effectiveness of NIE Networks' system of governance, risk management and control.

Principal Risks and Uncertainties

NIE Networks principal risks persisted from 2016 into 2017, 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 and the associated potential liability and/or loss of reputation for NIE Networks.	A comprehensive annual Health, Safety and Wellbeing Business Plan approved annually by the NIE Networks Board which sets out detailed targets for the management of health and safety. These targets are continually monitored as part of the Group's OHSAS 18001 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 appointed a Compliance Manager for the purpose of monitoring compliance with all regulatory licence obligations and reporting to the Utility Regulator on financial and other regulatory matters.
FINANCIAL RISKS	
Funding & liquidity: Inability to secure adequate funding at appropriate cost for planned investments and maintaining NIE Networks' credit metrics within Credit Rating Agency investment grade targets.	NIE Networks employs a continuous forecasting and monitoring process to ensure adequate funding is secured.
Exposure to financial counterparty risk.	Credit risk in respect of receivables from licensed electricity suppliers is mitigated by appropriate policies with security received in the form of cash deposits, letters of credit or parent company guarantees. NIE Networks conducts business only with Board approved counterparties which meet the criteria outlined in the Group's treasury policy. The Group's treasury policy and procedures are reviewed, revised and approved by the Board as appropriate.

Risk & Risk Description	Mitigating Strategies
FINANCIAL RISKs (continued)	
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 then new members have joined the money purchase section of the NIEPS ("Options"). The NIEPS trustees seek the advice of professional investment managers regarding the scheme's investments. The current deficit repair plan was implemented following conclusion of the last actuarial review as at 31 March 2014. An actuarial review, based on the position as at 31 March 2017, is in progress and is expected to be completed by June 2018.
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: Significant loss of market share arising from contestability in connections.	The Business Transformation Programme has delivered structure changes, process improvements and IT system enhancements underpinned by an excellent customer service and a strong commercial focus to address the challenges and opportunities associated with full market opening.
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 a year with arrangements in place for access to external utility resources if required.

Risk & Risk Description	Mitigating Strategies
OPERATIONAL RISKS (continued)	
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. Ongoing monitoring of technical performance and reliability. Disaster Recovery and failover arrangements documented and tested regularly. IT Security Forum responsible for policies and procedures and staff awareness training and communication. Preparations well advanced and Governance structures in place to ensure ongoing compliance with the Network and Information Systems Directive.
Data loss: Loss of data integrity or breach of Data Protection Act.	Data Protection Forum implements and monitors compliance with data protection policy and procedures. Preparations well advanced and governance structures have been established to ensure the Group will be compliant with the new General Data Protection Regulation. Ongoing data protection training for all staff.
PEOPLE RISKS	
Knowledge, skills and succession management: Inadequate resources with the necessary knowledge and skills.	NIE Networks' strategy is to attract, recruit and develop highly skilled people through graduate, apprenticeship, trainee and sponsorship programmes to ensure that appropriate resources are in place to meet the Group's regulatory obligations.
Failure to develop and retain staff.	People development is a key priority for the Group with continued investment in staff training, skills development and on-going performance improvement. Focused management development programmes are in place to maximise the potential of staff and ensure adequate succession planning.

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 2017 and agreed by the Board.

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 to ensure that our responses are well managed and executed. The exercising and testing of these plans is key to ensuring NIE Networks' preparedness.

On behalf of the Board

Nicholas Tarrant
Managing Director

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

Registered Number: NI026041

Date: 15 March 2018

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. Details of health and safety management, employment policies and initiatives and sustainability performance during 2017 can be found in the Operational Review on pages 8 to 14. Initiatives undertaken during the year to support NIE Networks' principal Corporate Social Responsibility (CSR) themes and priorities are described below.

During the year NIE Networks employees attended around 160 events to promote safety around electricity and provide skills, careers advice and guidance.

Safety

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

During 2017, around 28,000 farmers and contractors received safety advice from NIE Networks at farm safety events. Safety presentations were made to contractors in the transport industry and to other utilities and their contractors.

NIE Networks' "Kidzsafe" programme continued with over 10,000 schoolchildren participating in the interactive programme to educate and raise awareness of the dangers of the electricity network in an effort to reduce incidences of electricity-related injuries. NIE Networks continued to utilise the dedicated safety training facility for children and young people, known as RADAR (Risk Avoidance and Danger Awareness Resource).

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

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

Customer Care

NIE Networks aims to deliver electricity safely and reliably to customers and to respond quickly and efficiently should a power cut occur unexpectedly. A series of presentations were made to key customer and government bodies and elected representatives on how NIE Networks repairs network faults and the Group's investment plans during the RP6 price control.

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

NIE Networks' critical care information service is a priority service for 8,000 customers who rely on electricity for their healthcare needs with customers or their carers receiving prioritised information on faults or planned work on the network.

The Group 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 NIE Networks delivers a pre-agreed password to the customer before being allowed to enter a property.

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, coupled with the need to invest heavily in network renewal and investment projects, the electricity industry faces a significant skills shortage in the future. NIE Networks therefore continues to engage proactively with students to consider engineering as a career, through a wide range of educational outreach initiatives including:

- main sponsor of "Skills NI", a two day careers event for 14-19 year olds with around 75 exhibitors and connecting around 8,000 young people with job, career and skills opportunities across Northern Ireland;
- links with over 80 schools, most of the further educational colleges and the two universities to promote opportunities from taking Science, Technology, Engineering and Maths (STEM) subjects;
- offering 4 further Electrical & Electronic Engineering scholarships at Queen's University Belfast taking the total number of NIE Networks' scholarship students to 25;
- work experience for GCSE and A-Level students studying STEM subjects and sponsoring, mentoring and the facilitation of a four week research and development experience for two A-Level students via the Nuffield Bursary as well as bursaries for two Arkwright students;
- sponsoring the IET Northern Ireland First Lego League, a global robotics challenge, supporting participating schools with engineering mentoring and providing a bursary for the winning team to represent Northern Ireland in the UK First Lego League final;`
- engineering mentoring to school children participating in the Sentinus "SMART Energy", "Team R&D" and "Engineering Futures" programmes;
- providing advice and assistance at numerous interview skills and assessment sessions in conjunction with eye4education;
- working with Malone College in supporting young people via the delivery of site visits and skill development workshops; and
- providing financial support to "Little Women NI" for a workshop encouraging young girls to develop skills in confidence, communication, creativity, leadership and teambuilding.

Community Initiatives

NIE Networks continues to be a member of Business in the Community (BiTC). Throughout 2017 employees served on the boards of 18 local voluntary, community and social enterprise organisations through BiTC's "Business on Board" programme. NIE Networks also participates in BiTC's "PLACE" Leadership Team, which seeks opportunities to promote community regeneration through employee volunteering.

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

Charitable Giving and Sponsorship

Charitable giving by employees is promoted through the NIE Networks Staff and Pensioners Charity Fund, in addition to which the Group contributed £10,000 during the year. In 2017 the Charities Fund supported Autism projects, including Adam's Camp and Autism NI, by donating £9,500.

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

BOARD OF DIRECTORS

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

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

ALAN BRYCE was appointed as an independent non-executive director in January 2018. He is a non-executive director of Jersey Electricity plc and of Scottish Water and Chair of the windfarm developer Viking Energy Shetland LLP. He is a member of Ofgem's Network Innovation Competition Electricity Advisory Panel. 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 Infinis Energy plc and at Iberdrola USA. He is a Fellow of the Institution of Engineering and Technology**.**

RONNIE MERCER CBE was appointed as an independent non-executive director in March 2011. He is a member of the University of Glasgow Court. He was Chairman of Scottish Water from 2006 to 2015 and in 2013 was awarded the CBE for his services to Scottish Water. He has extensive relevant experience and knowledge of the energy sector as he formerly held senior executive positions at Scottish Power including Group Director Infrastructure, Executive Vice President Operations of the PacifiCorp subsidiary, Generation Director and Managing Director of Southern Water. Mr Mercer retired from the Board on 3 March 2018.

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

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

GROUP DIRECTORS' REPORT

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

Results and Dividends

The results for the year ended 31 December 2017 show a profit after tax of £44.7m (2016 - £45.5m). During the year the Company paid a final dividend of £18.0m (2016 - £16.0m). The business and financial review, together with future business developments, are provided in the Group Strategic Report.

Corporate Governance

The Board believes that effective corporate governance is a fundamental aspect of a well-run business and is committed to achieving the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the business.

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

Throughout 2017 the NIE Networks' Board comprised three independent non-executive directors and two executive directors. Stephen Kingon CBE chaired the Board. Dame Rotha Johnston DBE and Ronnie Mercer CBE were the Board's other independent non-executive directors. Nicholas Tarrant, Managing Director and Peter Ewing, Deputy Managing Director and Director of Regulation and Market Operations are executive directors. Alan Bryce was appointed as an independent non-executive director from 1 January 2018. Following seven years of service Ronnie Mercer retired from the Board on 3 March 2018. The Board expresses its gratitude to Ronnie Mercer for his significant contribution to the Board and the Audit & Risk Committee over these years. Directors' biographies are provided on page 21.

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

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

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

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

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

Board of Directors
Stephen Kingon CBE (Chair)
Rotha Johnston DBE (Independent Non-Executive Director)
Ronnie Mercer CBE (Independent Non-Executive Director) (retired March 2018)
Alan Bryce (Independent Non-Executive Director) (appointed January 2018)
Nicholas Tarrant (Managing Director)
Peter Ewing (Deputy MD and Director of Regulation and Market Operations)

Audit & Risk Committee
Rotha Johnston DBE (Chair)
Stephen Kingon CBE
Ronnie Mercer CBE (retired March 2018)
Alan Bryce (appointed January 2018)

Executive Committee
Nicholas Tarrant, Managing Director (Chair)
Peter Ewing, Deputy MD and Director of Regulation and Market Operations
Con Feeney, Network Performance & Safety Director
Roger Henderson, Network Connections Director
Bob Sweeney, Network Construction Director
Eddie Byrne, Finance Director
Gordon Parkes, Human Resources Director

Audit & Risk Committee

The Audit & Risk Committee is a formally constituted committee of the Board with responsibility for overseeing the Group's financial reporting process and internal control and risk management systems.

The Audit & Risk Committee comprises the three independent non-executive directors and is chaired by Rotha Johnston. The Board is satisfied that at least one member of the Committee is competent in accounting and auditing. The Committee had six meetings during the year.

The terms of reference sets out the duties of the Audit & Risk Committee. The issues considered by the Committee during 2017, and up to the date of this report, are outlined below:

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

Internal Control and Risk Management
- considered and approved the Risk Management Committee's work programme for 2017 and received regular updates on progress;
- considered key risks faced together with mitigating actions being taken and their alignment to the risk tolerance levels agreed;
- reviewed and monitored the effectiveness of internal controls and the risk management framework;
- considered an updated risk appetite assessment relating to the Company's principal risks and other key business activities;
- assessment of 'High Impact Low Probability' risks;
- reviewed the IT Governance and Risk Framework;
- monitored preparations for compliance with the General Data Protection Regulation from May 2018;
- reviewed the Company's statements for publication on the prevention of slavery and human trafficking; and
- reviewed the operation of the Company's key ethics policies including the adequacy of the arrangements in place for employees to raise concerns about possible wrongdoing.

Internal Audit

- considered the annual report of the internal audit plan for 2016 and met with the outgoing internal auditors, PwC, without the presence of management;
- in early 2017 approved the appointment of Deloitte as internal auditors of the Company;
- reviewed and approved the 2017 internal audit plan and monitored progress against this plan to assess the effectiveness of this function;
- reviewed reports detailing the results of internal audits and the timeliness of the implementation of actions;
- reviewed and approved the 2018 internal audit plan; and
- the Chair had discussions with Deloitte without the presence of management.

External Audit

- oversaw the transition from EY to PwC as external auditors which completed in mid 2017 following a competitive tendering process during 2016;
- reviewed reports from EY on the audit of the 2016 statutory accounts and March 2017 regulatory accounts and on EY's independence, and met with EY without the presence of management;
- considered PwC's review of the interim accounts;
- reviewed and challenged the proposed external audit plan for the 2017 statutory accounts to ensure that PwC had identified all key risks and developed robust audit procedures; and
- reviewed the report from PwC on its audit of the 2017 statutory accounts and its comments on accounting, financial control and other audit issues.

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

Internal Control Framework

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

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

- a code of ethics that requires all Board members and employees to maintain the highest ethical standards in conducting business;
- a clearly defined organisational structure with defined authority limits and reporting mechanisms;
- comprehensive budgeting and business planning processes with an annual budget approved by the Board;
- a continuous forecasting and monitoring process to manage financial risk;
- an integrated accounting system with a comprehensive system of management and financial reporting. A monthly financial report is prepared which includes analysis of results along with comparisons to budget, forecasts and prior year results. These are reviewed by the Executive Committee and the Board members on a monthly basis;
- the financial control framework reviewed in accordance with statutory and regulatory obligations;
- a comprehensive set of policies and procedures relating to financial and operational controls including health and safety, regulation, HR, asset management, risk management and capital expenditure;
- a risk management framework including the maintenance of risk registers and ongoing monitoring of key risks and mitigating actions;
- appropriately qualified and experienced personnel;
- governance team responsible for key controls testing;
- key 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, to include IT audit reviews of system access controls;
- external auditors providing advice on specific accounting matters; and
- a confidential helpline service to provide staff with a confidential, and if required, anonymous means to report fraud or ethical concerns.

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

Directors' Insurance

Insurance in respect of directors' and officers' liability is maintained by the Company's ultimate parent, ESB.

Disclosure of Information to the Auditors

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

Appointment of Auditors

Following the Board's appointment of PricewaterhouseCoopers LLP (PwC) as external auditors of the Company and Group in July 2017, PwC have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed to the shareholder during the period for appointing auditors.

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 (2016 - £nil).

Group Strategic Report

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

- an indication of future developments in the business (see pages 4 – 14);
- the Group's objectives and policies for financial risk management (including liquidity risk and credit risk) (see pages 6 - 8);
- a statement on the policy for disabled employees (see page 13);
- arrangements for employees to participate in the affairs of the Group (see pages 13 - 14); and
- an indication of activities in the Group in the field of research and development (see page 11).

Directors' Responsibilities Statement

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 Financial Reporting Standards (IFRSs) as adopted by the European Union 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 applicable IFRS as adopted by the European Union 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 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 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 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

Nicholas Tarrant
Managing Director

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

Registered Number: NI026041
15 March 2018

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 2017 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with 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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the group and parent company Balance sheets as at 31 December 2017; the Group income statement and group and company Statements 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 accounts, which include a description of the significant accounting policies. Our opinion is consistent with our reporting to the Audit & Risk Committee.

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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

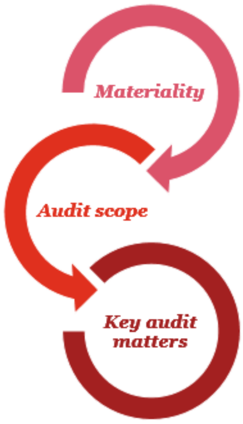
Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Context

This was the first year of our appointment with Northern Ireland Electricity Networks Limited (NIE Networks).

NIE Networks continues to operate against a backdrop of regulatory changes including transition onto the RP6 price control towards the end of the financial year.



Overall group materiality: £2,650,000, based on 5% of profit before tax.
Overall company materiality: £2,550,000, based on 5% of profit before tax.

We performed full scope audit over financially significant components (Northern Ireland Electricity Networks Limited, NIE Finance PLC and NIE Networks Services Limited).

Accounting estimates – unbilled debt.
SAP configuration and access control.

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. 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.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, the requirements of the Northern Ireland Utility Regulator. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, review of correspondence with legal advisors, enquiries of management, review of significant component auditors' work and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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.

Key audit matter	***How our audit addressed the key audit matter***
Accounting estimates – unbilled debt 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. This key audit matter is applicable to the Group and Company.	We understood and tested the processes and internal controls which NIE Networks has in place for the estimation of unbilled revenue. We performed testing over the systems that support unbilled revenue to include agreement of volume and pricing data between the billing system and the unbilled model, the appropriateness of underlying assumptions (and their consistency), and consideration of the outcome of prior period estimates. Our specialist data team provided support in the assessment and testing of this model. We concluded that unbilled revenue was appropriately stated.

Key audit matter	How our audit addressed the key audit matter
SAP configuration and access control	
NIE Networks utilise a number of complex IT systems to support financial reporting processes. Appropriate access controls and system configurations contribute to mitigating the risk of potential fraud or errors. The core financial system is mature with no underlying changes in programmes during the year. However, due to the complexity of the system, a change in an outsourced third party IT support provider, and our appointment as first year auditor, additional audit focus was given to this area. This key audit matter is applicable to the Group and Company.	We deployed a diagnostic tool on the core financial system in order to ensure configurations and access levels were appropriate. Some accesses and configurations were not in line with good practice, however we were further able to interrogate the system to ensure the integrity of underlying data in key areas of audit reliance. This included confirmation of: • the operation of automated controls; • the design of reports having not been modified in the period (including testing over completeness and accuracy); • relevant calculations operated in the period; • sensitive access/ segregation of duty controls operated in the period; • the relevant interfaces being tested in the period; and • the appropriateness of the journal testing criteria in place. All areas of concern were mitigated as a result of the testing performed. NIE Networks have introduced a number of improvements to strengthen the control environment in this area. This includes the development of detective controls to flag any unexpected changes in the systems.

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.

This was the first year of appointment of PwC. As part of our procedures to prepare as incoming auditor and enable the development of our Audit Strategy, as well as meeting with management, we attended Audit & Risk Committee meetings throughout the year, reviewed our predecessor's working papers, engaged with Internal Audit and performed interim review work.

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.

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:

	Group financial statements	*Company financial statements*
Overall materiality	£2,650,000	£2,550,000
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. The benchmark was adjusted to comply with ISA (UK) 600 which requires component materiality to be lower than overall group materiality.

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 between £93,980 and £2,550,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit & Risk Committee that we would report to them misstatements identified during our audit above £132,500 (Group and Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Group Strategic Report and Group Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Group Strategic Report and Group Directors' Report for the year ended 31 December 2017 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 Group Strategic Report and Group 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 set out on page 26, 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.

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 received 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.

Appointment

Following the recommendation of the Audit & Risk Committee, we were appointed by the Board on 17 October 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
16 March 2018

GROUP INCOME STATEMENT
for the year ended 31 December 2017

	Note	2017 £m	2016 £m
Revenue	3	**261.1**	246.8
Operating costs	4	**(166.2)**	(155.1)
OPERATING PROFIT		**94.9**	91.7
Finance revenue	6	**-**	0.1
Finance costs	6	**(38.5)**	(38.1)
Net pension scheme interest	6	**(3.6)**	(3.5)
Net finance costs	6	**(42.1)**	(41.5)
PROFIT BEFORE TAX		**52.8**	50.2
Tax charge	7	**(8.1)**	(4.7)
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**44.7**	45.5

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

		Group		Company	
	Note	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Profit for the financial year		**44.7**	45.5	**44.7**	45.5
Other comprehensive income / (expense):					
Items not to be reclassified to profit or loss in subsequent periods:					
Re-measurement gains / (losses) on pension scheme assets and liabilities	21	**8.2**	(54.3)	**8.2**	(54.3)
Deferred tax (charge) / credit relating to components of other comprehensive income / (expense)	7	**(1.4)**	8.0	**(1.4)**	8.0
Net other comprehensive income / (expense) for the year		**6.8**	(46.3)	**6.8**	(46.3)
Total comprehensive income / (expense) for the year attributable to the equity holders of the parent company		**51.5**	(0.8)	**51.5**	(0.8)

BALANCE SHEETS
as at 31 December 2017

		Group		Company	
	Note	**2017**	2016	**2017**	2016
		£m	£m	**£m**	£m
Non-current assets					
Property, plant and equipment	9	**1,715.5**	1,577.3	**1,716.3**	1,578.1
Intangible assets	10	**20.0**	24.3	**20.0**	24.3
Derivative financial assets	17	**500.0**	583.9	**500.0**	583.9
Investments	11	**-**	-	**7.9**	7.9
		2,235.5	2,185.5	**2,244.2**	2,194.2
Current assets					
Inventories	12	**15.2**	12.9	**15.2**	12.9
Trade and other receivables	13	**57.1**	60.9	**57.1**	60.9
Current tax receivable		**1.4**	-	**1.4**	-
Derivative financial assets	17	**79.5**	14.1	**79.5**	14.1
Cash and cash equivalents	14	**11.2**	9.3	**11.2**	9.3
		164.4	97.2	**164.4**	97.2
TOTAL ASSETS		**2,399.9**	2,282.7	**2,408.6**	2,291.4
Current liabilities					
Trade and other payables	15	**89.2**	136.6	**98.4**	145.8
Current tax payable		**-**	1.9	**-**	1.9
Deferred income	16	**18.0**	16.2	**18.0**	16.2
Financial liabilities:					
Derivative financial liabilities	17	**79.5**	14.1	**79.5**	14.1
Other financial liabilities	18	**307.2**	18.3	**307.2**	18.3
Provisions	20	**1.1**	1.7	**1.1**	1.7
		495.0	188.8	**504.2**	198.0
Non-current liabilities					
Deferred tax liabilities	7	**64.7**	59.6	**64.7**	59.6
Deferred income	16	**483.4**	414.9	**483.4**	414.9
Financial liabilities:					
Derivative financial liabilities	17	**500.0**	583.9	**500.0**	583.9
Other financial liabilities	18	**398.5**	592.1	**398.5**	592.1
Provisions	20	**3.9**	3.5	**3.9**	3.5
Pension liability	21	**127.0**	146.0	**127.0**	146.0
		1,577.5	1,800.0	**1,577.5**	1,800.0
TOTAL LIABILITIES		**2,072.5**	1,988.8	**2,081.7**	1,998.0
NET ASSETS		**327.4**	293.9	**326.9**	293.4
Equity					
Share capital	22	**36.4**	36.4	**36.4**	36.4
Share premium	22	**24.4**	24.4	**24.4**	24.4
Capital redemption reserve	22	**6.1**	6.1	**6.1**	6.1
Accumulated profits	22	**260.5**	227.0	**260.0**	226.5
TOTAL EQUITY		**327.4**	293.9	**326.9**	293.4

The profit after tax of the Company for the year is £44.7m (2016 - £45.5m).

The financial statements on pages 32 to 65 were approved by the Board of Directors on 14 March 2018 and signed on its behalf by:

Nicholas Tarrant
Director

Date: 15 March 2018

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2017

Group

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total equity £m
At 1 January 2016		**36.4**	**24.4**	**6.1**	**243.7**	**310.6**
Profit for the year		-	-	-	45.5	45.5
Net other comprehensive expense for the year		-	-	-	(46.3)	(46.3)
Total comprehensive expense for the year		-	-	-	(0.8)	(0.8)
Effect of decreased tax rate on opening asset	7	-	-	-	0.1	0.1
Dividends to the shareholder	22	-	-	-	(16.0)	(16.0)
At 31 December 2016		**36.4**	**24.4**	**6.1**	**227.0**	**293.9**
Profit for the year		-	-	-	44.7	44.7
Net other comprehensive income for the year		-	-	-	6.8	6.8
Total comprehensive income for the year		-	-	-	51.5	51.5
Dividends to the shareholder	22	-	-	-	(18.0)	(18.0)
At 31 December 2017		**36.4**	**24.4**	**6.1**	**260.5**	**327.4**

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2017

Company

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total equity £m
At 1 January 2016		**36.4**	**24.4**	**6.1**	**243.2**	**310.1**
Profit for the year		-	-	-	45.5	45.5
Net other comprehensive expense for the year		-	-	-	(46.3)	(46.3)
Total comprehensive expense for the year		-	-	-	(0.8)	(0.8)
Effect of decreased tax rate on opening asset		-	-	-	0.1	0.1
Dividends to the shareholder	22	-	-	-	(16.0)	(16.0)
At 31 December 2016		**36.4**	**24.4**	**6.1**	**226.5**	**293.4**
Profit for the year		-	-	-	44.7	44.7
Net other comprehensive income for the year		-	-	-	6.8	6.8
Total comprehensive income for the year		-	-	-	51.5	51.5
Dividends to the shareholder	22	-	-	-	(18.0)	(18.0)
At 31 December 2017		**36.4**	**24.4**	**6.1**	**260.0**	**326.9**

CASH FLOW STATEMENT
for the year ended 31 December 2017

	Note	Group 2017 £m	Group 2016 £m
Cash flows generated from operating activities			
Profit for the year		**44.7**	45.5
Adjustments for:			
Tax charge		**8.1**	4.7
Net finance costs	6	**42.1**	41.5
Depreciation of property, plant and equipment	9	**66.0**	60.5
Release of customers' contributions and grants	16	**(16.0)**	(15.0)
Amortisation of intangible assets	10	**5.2**	5.2
Customers' cash contributions	16	**86.3**	94.9
Defined benefit pension charge less contributions paid	21	**(14.4)**	(16.2)
Net movement in provisions	20	**(0.2)**	(3.8)
Operating cash flows before movement in working capital		**221.8**	217.3
Increase in inventories		**(2.3)**	(3.0)
Decrease / (increase) in trade and other receivables		**3.8**	(2.1)
(Decrease) / increase in trade and other payables		**(46.5)**	17.9
(Decrease) / increase in working capital		**(45.0)**	12.8
Cash generated from operations		**176.8**	230.1
Interest received		**-**	0.1
Interest paid		**(38.2)**	(37.9)
Current taxes paid		**(5.8)**	(5.9)
Net cash flows generated from operating activities		**132.8**	186.4
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(206.9)**	(197.4)
Purchase of intangible assets		**(0.9)**	(0.4)
Net cash flows used in investing activities		**(207.8)**	(197.8)
Cash flows used in financing activities			
Dividends paid to shareholder	22	**(18.0)**	(16.0)
Amounts borrowed from group undertakings	18	**94.9**	19.0
Net cash flows from financing activities		**76.9**	3.0
Net increase / (decrease) in cash and cash equivalents		**1.9**	(8.4)
Cash and cash equivalents at beginning of year		**9.3**	17.7
Cash and cash equivalents at end of year	14	**11.2**	9.3

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

NOTES TO THE ACCOUNTS

1. General Information

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

2. Accounting Policies

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

New and revised accounting standards, amendments and interpretations
No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2017, have had a material impact on the financial statements of the Group or the 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 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group or Company. The more significant future accounting standards and how they may apply to the Group and Company is discussed below:

IFRS 9, 'Financial instruments'
IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. An expected credit losses model replaces the incurred loss impairment model used in IAS 39.

For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group is working towards the implementation of IFRS 9 on 1 January 2018. It anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by the adoption of IFRS 9.

The main impact of adopting IFRS 9 is likely to arise from the implementation of the expected credit losses model however, due to the Group's limited exposure to credit risk in respect of its trade receivables (see note 13) the Group does not expect that this will have a material impact on the financial statements of the Group or Company.

IFRS 15, 'Revenue from contracts with customers'
IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18, 'Revenue', and IAS 11, 'Construction contracts', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018, and earlier application is permitted.

The Group is working towards the implementation of IFRS 15 on 1 January 2018 and has carried out a review of existing contractual arrangements as part of this process. The directors anticipate that there will be no material impact in respect of revenue derived from distribution use of system tariffs, PSO charges and transmission service charges.

2. Accounting Policies (continued)

New and revised accounting standards, amendments and interpretations not yet adopted (continued)

IFRS 15 (continued)
In respect of revenue earned through charges for new connections to the network, the directors anticipate a change in the timing of recognition in respect of some elements of connections revenue, however it is anticipated that this change will have no impact on the future operating profit of the Group or Company.

IFRS 16, 'Leases'
IFRS 16 addresses the definition of a lease, recognition and measurement of leases, and it establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees.

The standard replaces IAS 17, 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019, and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15, 'Revenue from contracts with customers', at the same time.

The Group continues to assess the impact of IFRS 16 on the financial statements of the Group and Company. At this stage, the directors anticipate that the adoption of IFRS 16 may result in changes in the presentation of the Group's and Company's accounts from 2019.

Basis of Preparation
The Group accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the EU and applied in accordance with the provisions of the Companies Act 2006 as applicable to companies reporting under IFRS.

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

The 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 accounts 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.

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 22 to the accounts. The Group's debt finance at the year end comprised bonds of £175.0m and £400.0m (£174.8m and £398.5m respectively net of issue costs) which are due to mature in September 2018 and June 2026 respectively and £114.0m drawn down from a £150.0m RCF from ESB which is due to mature in September 2018.

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 - 18 months. In light of the maturity of the £175.0m bond and £150.0m RCF in September 2018, the Group is currently assessing longer term financing options in conjunction with its parent, ESB. The Group is satisfied that it will have access to funds in advance of the maturity of existing facilities as it has secured an option to extend the existing £150.0m RCF from ESB to £400.0m with maturity deferred until March 2019.

2. Accounting Policies (continued)

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

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

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

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

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

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

Infrastructure assets - up to 40 years
Non-operational buildings - freehold and long leasehold - up to 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.

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.

2. Accounting Policies (continued)

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

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

Gains or losses arising from de-recognition of computer software are measured as the difference between the net selling price and the carrying amount of the asset.

Inventories
Inventories are stated at the lower of 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.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with maturities of three months or less.

Loans and receivables
Loans and receivables are initially recorded at fair value. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Interest bearing loans and overdrafts
Interest bearing loans and overdrafts are initially recorded at fair value, being the proceeds received net of direct issue costs. After initial recognition, interest bearing loans are subsequently measured at amortised cost using the effective interest method.

Trade and other receivables
Trade receivables do not carry any interest and are recognised and carried at the lower of their amortised cost value and recoverable amount. Provision is made when there is objective evidence that the asset is impaired. Balances are written off when the probability of recovery is assessed as being remote.

Trade payables
Trade payables are not interest bearing and are stated at their amortised cost.

Derivative financial instruments
Derivatives that are not designated as hedging instruments are accounted for at ‘fair value through profit or loss’. These derivatives are carried in the balance sheet at fair value, with changes in fair value recognised in net finance costs in the income statement.

Borrowing costs
Borrowing costs attributable to significant capital projects are capitalised as part of the cost of the respective qualifying assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Operating lease contracts
Leases are classified as operating lease contracts whenever the terms of the lease do not transfer substantially all the risks and benefits of ownership to the lessee.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

2. Accounting Policies (continued)

Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, exclusive of value added tax and other sales related taxes.

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

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

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

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

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

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

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

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

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

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.

2. Accounting Policies (continued)

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

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

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

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

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

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

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

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

Critical accounting judgements and key sources of estimation uncertainty

Pensions and other post-employment benefits
The employees in NIE Networks are entitled to membership of the NIEPS which has both defined benefit and defined contribution arrangements. 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 21.

Unbilled debt
Revenue includes an assessment of the volume of electricity distributed, estimated using historical consumption patterns. A corresponding receivable in respect of unbilled consumption is recognised within trade receivables.

Fair value measurement
The measurement of the Group's derivative financial instruments is based on a number of judgmental factors and assumptions which by necessity are not based on observable inputs. These have been classified as Level 2 financial instruments in accordance with IFRS 13. Further detail is provided in note 17.

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.

	2017 £m	2016 £m
Revenue:		
Sales revenue	**245.6**	232.3
Release of customer contributions from deferred income	**15.5**	14.5
	261.1	246.8

During the year, four customers accounted for sales revenue totalling £198.8m (2016 – three customers accounted for £178.9m).

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:

	2017 £m	2016 £m
Employee costs (note 5)	**29.3**	25.2
Depreciation and amortisation	**70.7**	65.2
Other operating charges	**66.2**	64.7
	166.2	155.1

Operating costs include:		
Depreciation charge on property, plant and equipment	**66.0**	60.5
Amortisation of intangible assets	**5.2**	5.2
Amortisation of grants	**(0.5)**	(0.5)
Minimum payments due under operating leases	**3.3**	3.2
Cost of inventories recognised as an expense	**1.3**	1.8

Operating costs include:

Auditor's remuneration	**2017 £'000**	2016 £'000
Ernst & Young LLP:		
Fees payable to the Group and Company auditors for the audit of the accounts	**-**	23
Fees payable to the Group and Company auditors for other services:		
The audit of the company's subsidiaries pursuant to legislation	**-**	13
Audit related assurance services	**27**	30
Permitted tax compliance services	**3**	2
PricewaterhouseCoopers LLP:		
Fees payable to the Group and Company auditors for the audit of the accounts	**29**	-
Fees payable to the Group and Company auditors for other services:		
The audit of the company's subsidiaries pursuant to legislation	**4**	-
Audit related assurance services	**10**	-

As discussed in the Group Directors' Report, PricewaterhouseCoopers LLP were appointed as external auditors following the audit of the March 2017 Regulatory accounts by Ernst & Young LLP.

5. Employees

Employee costs – Group and Company

	2017 **£m**	2016 £m
Wages and salaries	**52.8**	51.1
Social security costs	**5.6**	5.3
Pension costs		
- defined contribution plans	**4.4**	3.7
- defined benefit plans	**11.0**	7.7
	73.8	67.8
Less: amounts capitalised to property, plant and equipment and intangible assets	**(44.5)**	(42.6)
Charged to the income statement	**29.3**	25.2

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

	Average		**Actual headcount as at 31 December**	
	2017 Number	2016 Number	**2017 Number**	2016 Number
Management, administration and support	**318**	316	**312**	320
Electrical services	**966**	942	**961**	957
Employee numbers	**1,284**	1,258	**1,273**	1,277

Directors' emoluments

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

	2017 **£'000**	2016 £'000
Emoluments in respect of qualifying services	**654**	625

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

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

	2017 **Number**	2016 Number
Defined benefit pension scheme	**-**	-
Defined contribution scheme	**1**	1

Aggregate contributions by the Company to defined contribution pension schemes in respect of the directors during the year was £4,212 (2016 - £17,375).

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

As at 31 December	**2017** **£'000**	2016 £'000
Emoluments	**312**	299
Total accrued pension at 31 December (per annum)	**-**	-

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

6. Net Finance Costs

	2017 £m	2016 £m
Interest receivable:		
Bank interest receivable	**-**	0.1
Interest payable:		
£175m bond	**(12.0)**	(12.0)
£400m bond	**(25.5)**	(25.5)
Amounts payable to parent undertakings (note 27)	**(0.8)**	(0.5)
	(38.3)	(38.0)
Less: capitalised interest	**0.1**	0.2
Total interest charged to the income statement	**(38.2)**	(37.8)
Other finance costs:		
Amortisation of financing charges	**(0.3)**	(0.3)
Total finance costs	**(38.5)**	(38.1)
Net pension interest cost	**(3.6)**	(3.5)
Net finance costs	**(42.1)**	(41.5)

Interest recognised in the balance sheet during the year was capitalised to qualifying assets (infrastructure assets under construction) using a weighted average interest rate of 6.14% (2016 - 6.48%).

Funds from Operations (FFO) Interest Cover Ratio

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

	2017 £m	2016 £m
Operating profit	**94.9**	91.7
Add back depreciation and amortisation	**70.7**	65.2
Deduct pension deficit repair contributions	**(17.2)**	(16.9)
Deduct amortisation of customer contributions	**(15.5)**	(14.5)
Deduct tax paid	**(5.8)**	(5.9)
Funds from operations	**127.1**	119.6
Interest paid	**(38.2)**	(37.9)
FFO to interest paid (times)	**3.3**	3.2

Pension deficit repair contributions of £17.2m (2016 - £16.9m) reflect contributions in respect of past service costs as explained in note 21.

7. Tax Charge

(i) Analysis of charge during the year

Group Income Statement	2017 £m	2016 £m
Current tax charge		
UK corporation tax at 19.25% (2016 – 20.00%)	**6.4**	5.4
Over-provided in prior years	**(2.0)**	-
Total current income tax	**4.4**	5.4
Deferred tax charge / (credit)		
Origination and reversal of temporary differences in current year	**3.7**	4.3
Effect of decreased tax rate on opening liability	**-**	(5.0)
Total deferred tax charge / (credit)	**3.7**	(0.7)
Total tax charge	**8.1**	4.7
Tax relating to items charged / (credited) in other comprehensive income		
Deferred tax		
Deferred tax charge / (credit) relating to components of other comprehensive income	**1.4**	(9.2)
Effect of decreased tax rate on opening asset	**-**	1.2
	1.4	(8.0)
Tax relating to items charged to changes in equity		
Deferred tax		
Effect of decreased rate on opening asset	**-**	(0.1)
	-	(0.1)

(ii) Reconciliation of total tax charge

The tax charge in the Group Income Statement for the year is lower (2016 – lower) than the standard rate of corporation tax in the UK of 19.25% (2016 – 20.00%). The differences are reconciled below:

	2017 £m	2016 £m
Accounting profit before tax charge	**52.8**	50.2
Accounting profit multiplied by the UK standard rate of corporation tax of 19.25% (2016 – 20.00%)	**10.2**	10.0
Tax effect of:		
Impact of deferred tax at reduced rate	**(0.5)**	(5.7)
Other permanent differences	**0.4**	0.4
Tax over-provided in prior years	**(2.0)**	-
Tax charge for the year	**8.1**	4.7

7. Tax Charge (continued)

(iii) Deferred tax

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

	2017 £m	2016 £m
Deferred tax assets		
Pension liability	**21.6**	24.8
Other temporary differences	**0.3**	0.3
	21.9	25.1
Deferred tax liabilities		
Accelerated capital allowances	**(85.8)**	(83.9)
Held-over losses on property disposals	**(0.8)**	(0.8)
	(86.6)	(84.7)
Net deferred tax liability	**(64.7)**	(59.6)

Deferred tax has been calculated at 17.0% as at 31 December 2017 (2016 – 17.0%) reflecting future reductions in the corporation tax rate enacted at the balance sheet date.

The deferred tax charge/(credit) included in the Group Income Statement is as follows:

	2017 £m	2016 £m
Accelerated capital allowances	**1.9**	(3.3)
Temporary differences in respect of pensions	**1.8**	2.0
Other temporary differences	**-**	0.6
Deferred tax charge / (credit)	**3.7**	(0.7)

8. Profit for the Financial Year

The profit of the Company is £44.7m (2016 - £45.5m). 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 2016	2,249.1	5.1	74.3	9.1	2,337.6
Additions	193.8	-	5.5	0.3	199.6
Write offs	-	-	(5.5)	(7.0)	(12.5)
At 31 December 2016	**2,442.9**	**5.1**	**74.3**	**2.4**	**2,524.7**
Additions	196.6	-	7.6	-	204.2
At 31 December 2017	**2,639.5**	**5.1**	**81.9**	**2.4**	**2,728.9**
Depreciation:					
At 1 January 2016	833.5	1.7	57.2	7.0	899.4
Charge for the year	55.7	0.1	3.8	0.9	60.5
Write off of accumulated depreciation	-	-	(5.5)	(7.0)	(12.5)
At 31 December 2016	**889.2**	**1.8**	**55.5**	**0.9**	**947.4**
Charge for the year	60.4	0.1	4.6	0.9	66.0
At 31 December 2017	**949.6**	**1.9**	**60.1**	**1.8**	**1,013.4**
Net book value:					
At 31 December 2016	1,553.7	3.3	18.8	1.5	1,577.3
At 31 December 2017	**1,689.9**	**3.2**	**21.8**	**0.6**	**1,715.5**

Infrastructure assets include amounts in respect of assets under construction of £77.9m (2016 - £68.1m).

9. Property, Plant and Equipment (continued)

Company	Infrastructure assets £m	Non-operational land and buildings £m	Fixtures and equipment £m	Vehicles and mobile plant £m	Total £m
Cost:					
At 1 January 2016	2,250.7	5.1	67.7	-	2,323.5
Additions	193.8	-	5.5	0.3	199.6
Transfer from subsidiary undertaking	-	-	1.1	2.1	3.2
At 31 December 2016	**2,444.5**	**5.1**	**74.3**	**2.4**	**2,526.3**
Additions	196.6	-	7.6	-	204.2
At 31 December 2017	**2,641.1**	**5.1**	**81.9**	**2.4**	**2,730.5**
Depreciation:					
At 1 January 2016	834.3	1.7	51.7	-	887.7
Charge for the year	55.7	0.1	3.8	0.9	60.5
At 31 December 2016	**890.0**	**1.8**	**55.5**	**0.9**	**948.2**
Charge for the year	60.4	0.1	4.6	0.9	66.0
At 31 December 2017	**950.4**	**1.9**	**60.1**	**1.8**	**1,014.2**
Net book value:					
At 31 December 2016	1,554.5	3.3	18.8	1.5	1,578.1
At 31 December 2017	**1,690.7**	**3.2**	**21.8**	**0.6**	**1,716.3**

Infrastructure assets include amounts in respect of assets under construction of £77.9m (2016 - £68.1m).

Transfers from subsidiary undertaking in the prior year reflect the transfer of assets from NIE Networks Services Limited to NIE Networks at net book value. Further details of the transfer are disclosed in note 11.

10. Intangible Assets

Computer software	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Cost:				
At the beginning of the year	**102.9**	102.6	**102.9**	102.5
Additions acquired externally	**0.9**	0.4	**0.9**	0.4
Write offs	**-**	(0.1)	**-**	-
At the end of the year	**103.8**	102.9	**103.8**	102.9
Amortisation / impairment:				
At the beginning of the year	**78.6**	73.5	**78.6**	73.4
Amortisation charge for the year	**5.2**	5.2	**5.2**	5.2
Write offs	**-**	(0.1)	**-**	-
At the end of the year	**83.8**	78.6	**83.8**	78.6
Net book value:				
At the beginning of the year	**24.3**	29.1	**24.3**	29.1
At the end of the year	**20.0**	24.3	**20.0**	24.3

Software assets include amounts in respect of assets under construction amounting to £nil (2016 - nil).

Software assets include £15.7m (2016 - £19.3m) in respect of market and customer software invested in following separation from the Viridian Group. The relevant software has a remaining useful life of 4.5 years.

11. Investments

Company – Investment in subsidiaries

	2017	2016
	£m	£m
Cost:		
At the beginning and end of the year	**7.9**	7.9

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

11. Investments (continued)

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. A summary of the assets and liabilities transferred and the consideration payable is shown below:

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

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

Dormant subsidiaries

The Company holds 100% of the share capital of Northern Ireland Electricity Limited and NIE Limited. These companies are dormant and the carrying value of these investments as at 31 December 2017 is £nil (2016 - £nil).

12. Inventories

Group and Company	**2017 £m**	2016 £m
Materials and consumables	**14.9**	12.4
Work-in-progress	**0.3**	0.5
	15.2	12.9

13. Trade and Other Receivables

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Current				
Trade receivables (including unbilled consumption)	**49.8**	55.0	**49.8**	55.0
Other receivables	**0.6**	0.8	**0.6**	0.8
Prepayments and accrued income	**1.9**	2.5	**1.9**	2.5
Amounts owed by fellow subsidiary undertakings (note 27)	**4.8**	2.6	**4.8**	2.6
	57.1	60.9	**57.1**	60.9

Trade receivables include amounts relating to unbilled consumption of £17.6m (2016 - £16.6m).

The largest trade receivable at the year end, due from one customer, is £8.8m (2016 - £9.0m).

Trade receivables are stated net of an allowance of £0.5m (2015 - £0.3m) for estimated irrecoverable amounts based on past default experience. There are no allowances for estimated irrecoverable amounts included in 'amounts owed by fellow subsidiary undertakings'.

Group and Company	**2017 £m**	2016 £m
At the beginning of the year	**0.3**	0.3
Increase in allowance	**0.3**	-
Bad debts written off	**(0.1)**	-
At the end of the year	**0.5**	0.3

The allowance of £0.5m includes £0.4m (2016 - £0.2m) in respect of individual balances impaired based on the age of debt and past default experience.

The following shows an aged analysis of current trade receivables:

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Within credit terms:				
Current	**46.6**	48.5	**46.6**	48.5
Past due but not impaired:				
Less than 30 days	**0.5**	4.5	**0.5**	4.5
30 - 60 days	**0.9**	0.7	**0.9**	0.7
60 - 90 days	**0.2**	1.0	**0.2**	1.0
+ 90 days	**1.6**	0.3	**1.6**	0.3
	49.8	55.0	**49.8**	55.0

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. 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 15 to the accounts.

14. Cash and Cash Equivalents

Group and Company

	2017 **£m**	2016 £m
Cash at bank and in hand	**11.2**	9.3
	11.2	9.3

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. The directors consider that the carrying amount of cash and cash equivalents equates to fair value.

15. Trade and Other Payables

	Group		Company	
	2017 **£m**	2016 £m	**2017** **£m**	2016 £m
Trade payables	**19.0**	18.2	**19.0**	18.2
Payments received on account	**29.9**	67.9	**29.9**	67.9
Amounts owed to fellow subsidiary undertakings (note 27)	**5.3**	4.5	**5.3**	4.5
Amounts owed to subsidiary undertakings	**-**	-	**9.2**	9.2
Tax and social security	**7.9**	9.4	**7.9**	9.4
Accruals	**24.0**	27.8	**24.0**	27.8
Other payables	**3.1**	8.8	**3.1**	8.8
	89.2	136.6	**98.4**	145.8

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

16. Deferred Income

Group and Company	**Grants £m**	**Customers' contributions £m**	**Total £m**
Current	0.5	11.3	11.8
Non-current	5.9	333.5	339.4
Total at 1 January 2016	**6.4**	**344.8**	**351.2**
Receivable	-	94.9	94.9
Released to income statement	(0.5)	(14.5)	(15.0)
Current	0.5	15.7	16.2
Non-current	5.4	409.5	414.9
Total at 31 December 2016	**5.9**	**425.2**	**431.1**
Receivable	-	86.3	86.3
Released to income statement	(0.5)	(15.5)	(16.0)
Current	**0.5**	**17.5**	**18.0**
Non-current	**4.9**	**478.5**	**483.4**
Total at 31 December 2017	**5.4**	**496.0**	**501.4**

17. Derivative Financial Instruments

Group and Company - Interest rate swaps	2017 £m	2016 £m
Current assets	**79.5**	14.1
Non-current assets	**500.0**	583.9
	579.5	598.0
Current liabilities	**(79.5)**	(14.1)
Non-current liabilities	**(500.0)**	(583.9)
	(579.5)	(598.0)

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 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. The swaps are considered to be economic hedges for NIE Networks' regulated revenue and asset base. As part of the acquisition of NIE Networks by ESB in 2010, the swaps were novated to NIE Networks.

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

Arising from lower forward interest rates and higher RPI forward prices during the year, positive fair value movements of £3.8m occurred in 2017 (2016 – negative fair value movements of £145.4m). These have been recognised in finance costs in the income statement.

The increase in the current portion of the interest rate swaps in 2017 is largely owing to accretion payments falling due in 2018.

At the same time that the restructuring took effect, and in order to maintain the back to back matching put in place with ESBNI Limited (ESBNI), 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 accounts of 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.

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 2017 is considered by the Company to fall within the level 2 fair value hierarchy. The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between level 1 or 3 of the hierarchy during the year.

17. Derivative Financial Instruments (continued)

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 £58.1m / (£63.3m) (2016 - £63.8m / (£65.2m)). 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 £58.1m / (£63.3m) (2016 - £63.8m / (£65.2m)) 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.

18. Other Financial Liabilities

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Current				
Interest payable on £175m bond	**3.4**	3.4	**3.4**	3.4
Interest payable on £400m bond	**14.8**	14.8	**-**	-
Interest payable to parent undertaking (note 27)	**0.2**	0.1	**0.2**	0.1
Interest payable to subsidiary undertaking	**-**	-	**14.8**	14.8
£175m bond	**174.8**	-	**174.8**	-
Amounts owed to parent undertaking (note 27)	**114.0**	-	**114.0**	-
	307.2	18.3	**307.2**	18.3
Non-current				
£175m bond	**-**	174.6	**-**	174.6
£400m bond	**398.5**	398.4	**-**	-
Amounts owed to parent undertaking (note 27)	**-**	19.1	**-**	19.1
Amounts owed to subsidiary undertaking	**-**	-	**398.5**	398.4
	398.5	592.1	**398.5**	592.1

Loans and other borrowings outstanding are repayable as follows:

Group and Company	**2017**	2016
	£m	£m
In one year or less or on demand	**307.2**	18.3
Between two and five years	**-**	193.7
In more than five years	**398.5**	398.4
	705.7	610.4

Other financial liabilities are held at amortised cost.

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

- the £175m bond is repayable in September 2018 and carries a fixed rate of interest of 6.875% which is payable annually in arrears on 18 September. The bond issue incurred £2.6m of costs associated with raising finance;
- the 15 year £400m bond is repayable in 2026 and carries a fixed rate of interest of 6.375% which is payable annually in arrears on 2 June. The bond issue incurred £2.1m of costs associated with raising finance. In back to back arrangements, NIE Finance PLC has a loan of £400m with the Company, which was issued net of £2.1m of costs associated with raising finance. Interest is paid on the loan at a fixed rate of 6.375% annually in arrears on 2 June; and
- amounts owed to parent undertaking represents a drawdown of £114.0 (2016 - £19.1m) from the Company's £150.0m Revolving Credit Facility (RCF) provided by ESB which has a maturity date of September 2018. Interest is charged at 1-month LIBOR plus 0.75% and paid in arrears on the following draw-down date. Commitment fees are charged on the undrawn element of the facility.

18. Other Financial Liabilities (continued)

The £175m and £400m bonds, which are listed on the London Stock Exchange's regulated market, had fair values at 31 December 2017 of £182.3m (2016 - £194.0m) and £545.3m (2016 - £553.6m) respectively, based on current market prices. The Company's £400m back-to-back loan had a fair value at 31 December 2017 of £545.3m (2016 - £553.6m) based on the fair value of the £400m bond.

The fair value of bonds as at 31 December 2017 is considered by the Company to fall within the level 1 fair value hierarchy (defined within note 17). There have been no transfers between levels in the hierarchy during the year.

Given that 83% (2016 – 97%) of the Group and Company borrowings carry fixed interest rates, the Group and Company were not significantly exposed to movements in interest rates during the year.

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

At 31 December 2017	**On demand £m**	**Within 3 months £m**	**3 to 12 months £m**	**1 to 5 years £m**	**More than 5 years £m**	**Total £m**
£175m bond (including interest payable)	**-**	**-**	**187.0**	**-**	**-**	**187.0**
£400m bond (including interest payable)	**-**	**-**	**25.5**	**102.0**	**502.0**	**629.5**
RCF (including interest payable)	**-**	**-**	**114.9**	**-**	**-**	**114.9**
Trade and other payables	**33.0**	**51.3**	**-**	**-**	**-**	**84.3**
Interest rate swap liabilities	**-**	**-**	**79.9**	**52.8**	**504.3**	**637.0**
	33.0	**51.3**	**407.3**	**154.8**	**1,006.3**	**1,652.7**

At 31 December 2016	On demand £m	Within 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
£175m bond (including interest payable)	-	-	12.0	187.0	-	199.0
£400m bond (including interest payable)	-	-	25.5	102.0	527.5	655.0
RCF (including interest payable)	-	0.1	0.2	19.5	-	19.8
Trade and other payables	67.9	59.3	-	-	-	127.2
Interest rate swap liabilities	-	-	14.1	117.2	525.9	657.2
	67.9	59.4	51.8	425.7	1,053.4	1,658.2

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 2017	**On demand £m**	**Within 3 months £m**	**3 to 12 months £m**	**1 to 5 years £m**	**More than 5 years £m**	**Total £m**
£175m bond (including interest payable)	**-**	**-**	**187.0**	**-**	**-**	**187.0**
Amounts owed to subsidiary undertaking	**-**	**-**	**25.5**	**102.0**	**502.0**	**629.5**
RCF (including interest payable)	**-**	**-**	**114.9**	**-**	**-**	**114.9**
Trade and other payables	**33.0**	**60.5**	**-**	**-**	**-**	**93.5**
Interest rate swap liabilities	**-**	**-**	**79.9**	**52.8**	**504.3**	**637.0**
	33.0	**60.5**	**407.3**	**154.8**	**1,006.3**	**1,661.9**

At 31 December 2016	On demand £m	Within 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
£175m bond (including interest payable)	-	-	12.0	187.0	-	199.0
Amounts owed to subsidiary undertaking	-	-	25.5	102.0	527.5	655.0
RCF (including interest payable)	-	0.1	0.2	19.5	-	19.8
Trade and other payables	67.9	68.5	-	-	-	136.4
Interest rate swap liabilities	-	-	14.1	117.2	525.9	657.2
	67.9	68.6	51.8	425.7	1,053.4	1,667.4

19. Analysis of Net Debt

Group	At 1 January 2017 £m	Cash flow £m	Non-cash movement £m	At 31 December 2017 £m
Cash and cash equivalents	**9.3**	1.9	-	**11.2**
Interest payable on £175m bond	**(3.4)**	12.0	(12.0)	**(3.4)**
Interest payable on £400m bond	**(14.8)**	25.5	(25.5)	**(14.8)**
Interest payable to parent undertaking	**(0.1)**	0.7	(0.8)	**(0.2)**
£175m bond	**(174.6)**	-	(0.2)	**(174.8)**
£400m bond	**(398.4)**	-	(0.1)	**(398.5)**
Amounts owed to parent undertaking	**(19.1)**	(94.9)	-	**(114.0)**
	(601.1)	(54.8)	(38.6)	**(694.5)**

Company	At 1 January 2017 £m	Cash Flow £m	Non-cash movement £m	At 31 December 2017 £m
Cash and cash equivalents	**9.3**	1.9	-	**11.2**
Interest payable on £175m bond	**(3.4)**	12.0	(12.0)	**(3.4)**
Interest payable to parent undertaking	**(0.1)**	0.7	(0.8)	**(0.2)**
Interest payable to subsidiary undertaking	**(14.8)**	25.5	(25.5)	**(14.8)**
£175m bond	**(174.6)**	-	(0.2)	**(174.8)**
Amounts owed to parent undertaking	**(19.1)**	(94.9)	-	**(114.0)**
Amounts owed to subsidiary undertaking	**(398.4)**	-	(0.1)	**(398.5)**
	(601.1)	(54.8)	(38.6)	**(694.5)**

20. Provisions

Group and Company	Environment £m	Liability and damage claims £m	Total £m
Current	-	0.6	0.6
Non-current	4.6	3.8	8.4
Total at 1 January 2016	**4.6**	**4.4**	**9.0**
Applied in the year	-	(0.5)	(0.5)
Released to income statement	(3.0)	(0.3)	(3.3)
Current	1.1	0.6	1.7
Non-current	0.5	3.0	3.5
Total at 1 January 2017	**1.6**	**3.6**	**5.2**
Applied in the year	-	0.3	0.3
Released to income statement	-	(0.5)	(0.5)
Current	**0.6**	**0.5**	**1.1**
Non-current	**1.0**	**2.9**	**3.9**
Total at 31 December 2017	**1.6**	**3.4**	**5.0**

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 matters and employee claims. The non-current element of these provisions is expected to be utilised within a period not exceeding five years.

21. Pension Commitments

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

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

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the scheme was carried out by a qualified actuary as at 31 March 2014 and showed a deficit of £110.7m. The formal valuation as at 31 March 2017 is currently ongoing. The Company is paying deficit contributions of £16.7m per annum (increasing in line with inflation) from 1 April 2015. The Company also pays contributions of 36.6% of pensionable salaries in respect of current accrual, with active members paying a further 6% of pensionable salaries.

Profile of the scheme

The net liability includes benefits for current employees, former employees and current pensioners. Broadly, about 21% of the liabilities are attributable to current employees, 5% to former employees and 74% to current pensioners. The scheme duration is an indication of the weighted average time until benefit payments are made. For the NIEPS, the duration is around 13 years (2016 – 13 years) based on the last funding valuation.

Risks associated with the scheme

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

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

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

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

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

The trustees insure certain benefits payable on death before retirement.

21. Pension Commitments (continued)

Mercer, NIE Networks' actuaries, have provided a valuation of Focus under IAS 19 as at 31 December 2017 based on the following assumptions (in nominal terms) and using the projected unit credit method:

	2017	2016
Rate of increase in pensionable salaries (per annum)	**3.20%**	3.20%
Rate of increase in pensions in payment (per annum)	**2.10%**	2.10%
Discount rate (per annum)	**2.50%**	2.70%
Inflation assumption (CPI) (per annum)	**2.10%**	2.10%
Life expectancy:		
Current pensioners (at age 60) – males	**27.4 years**	27.3 years
Current pensioners (at age 60) – females	**29.9 years**	29.8 years
Future pensioners (at age 60) – males	*** 29.3 years**	*29.2 years
Future pensioners (at age 60) – females	***31.9 years**	*31.8 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 2017 shows a net pension liability (before deferred tax) of £127.0m (2016 - £146.0m). 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**	
	2017 £m	2016 £m	**2017 £m**	2016 £m
0.5% change in rate of increase in pensionable salaries	**(9.5)**	(7.9)	**9.3**	8.4
0.5% change in rate of pensions in payments	**(58.9)**	(58.3)	**54.2**	53.4
0.5% change in annual discount rate	**81.6**	77.4	**(86.2)**	(80.9)
0.5% change in annual inflation rate (CPI)	**(65.3)**	(70.1)	**61.7**	67.8
1 year change in life expectancy	**(43.4)**	(42.4)	**43.4**	42.4

Assets and Liabilities

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

	Group		**Company**	
	Value at 31 December 2017 £m	Value at 31 December 2016 £m	**Value at 31 December 2017 £m**	Value at 31 December 2016 £m
Equities – quoted	**276.8**	236.7	**276.8**	236.7
Bonds – quoted	**225.8**	252.5	**225.8**	252.5
Diversified growth funds – quoted	**410.1**	397.2	**410.1**	397.2
Multi-asset credit investments	**217.0**	213.5	**217.0**	213.5
Cash	**9.5**	5.5	**9.5**	5.5
	1,139.2	1,105.4	**1,139.2**	1,105.4
Total market value of assets				
Actuarial value of liabilities	**(1,266.2)**	(1,251.4)	**(1,266.2)**	(1,251.4)
Net pension liability	**(127.0)**	(146.0)	**(127.0)**	(146.0)

21. Pension Commitments (continued)

Changes in the market value of assets

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Market value of assets at the beginning of the year	**1,105.4**	990.6	**1,105.4**	772.5
Transfer from subsidiary undertaking (note 11)	**-**	-	**-**	218.1
Interest income on scheme assets	**29.3**	37.0	**29.3**	37.0
Contributions from employer	**25.4**	23.9	**25.4**	23.9
Contributions from scheme members	**0.4**	0.4	**0.4**	0.4
Benefits paid	**(66.7)**	(57.7)	**(66.7)**	(57.7)
Administration expenses paid	**(1.3)**	(1.1)	**(1.3)**	(1.1)
Re-measurement gains on scheme assets	**46.7**	112.3	**46.7**	112.3
Market value of assets at the end of the year	**1,139.2**	1,105.4	**1,139.2**	1,105.4

Changes in the actuarial value of liabilities

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Actuarial value of liabilities at the beginning of the year	**1,251.4**	1,095.0	**1,251.4**	906.3
Transfer from subsidiary undertaking (note 11)	**-**	-	**-**	188.7
Interest expense on pension liability	**32.9**	40.5	**32.9**	40.5
Current service cost	**8.0**	6.5	**8.0**	6.5
Curtailment costs	**1.7**	0.1	**1.7**	0.1
Contributions from scheme members	**0.4**	0.4	**0.4**	0.4
Benefits paid	**(66.7)**	(57.7)	**(66.7)**	(57.7)
Effect of changes in financial assumptions	**32.9**	173.8	**32.9**	173.8
Effect of experience adjustments	**5.6**	(7.2)	**5.6**	(7.2)
Actuarial value of liabilities at the end of the year	**1,266.2**	1,251.4	**1,266.2**	1,251.4

The curtailment loss arising in 2017 reflects past service costs associated with employees leaving the company under a restructuring voluntary exit arrangement under which 61 employees left the business during 2017.

The Group expects to make contributions of approximately £23.3m to Focus in 2018.

The Group's share of the NIEPS service costs is allocated based on the pensionable payroll. Contributions from employer, interest cost liabilities, interest income on assets and experience gains or losses are allocated based on the Group's share of the NIEPS net pension liability.

Analysis of the amount charged to operating costs (before capitalisation)

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Current service cost	**(8.0)**	(6.5)	**(8.0)**	(6.5)
Administration expenses paid	**(1.3)**	(1.1)	**(1.3)**	(1.1)
Curtailment costs	**(1.7)**	(0.1)	**(1.7)**	(0.1)
Total operating charge	**(11.0)**	(7.7)	**(11.0)**	(7.7)

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.

21. Pension Commitments (continued)

Analysis of the amount charged to net pension scheme interest

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Interest income on scheme assets	**29.3**	37.0	**29.3**	37.0
Interest expense on liabilities	**(32.9)**	(40.5)	**(32.9)**	(40.5)
Net pension scheme interest expense	**(3.6)**	(3.5)	**(3.6)**	(3.5)

The actual return on Focus assets was a gain of £76.0m for the Group and Company (2016 - gain of £149.3m for the Group and Company).

Analysis of amounts recognised in the Statement of Comprehensive Income

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Re-measurement gains on scheme assets	**46.7**	112.3	**46.7**	112.3
Actuarial losses on scheme liabilities	**(38.5)**	(166.6)	**(38.5)**	(166.6)
Net gains / (losses)	**8.2**	(54.3)	**8.2**	(54.3)

The cumulative actuarial losses recognised in the Group and Company Statements of Comprehensive Income since 1 April 2004 are £151.1m and £153.2m respectively (2016 – £159.3m and £161.4m respectively). The directors are unable to determine how much of the net pension liability recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since the inception of Focus. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income shown before 1 April 2004.

22. Share Capital and Equity

	Group		Company	
	2017 **£m**	2016 £m	**2017** **£m**	2016 £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	**260.5**	227.0	**260.0**	226.5
	327.4	293.9	**326.9**	293.4

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:	**2017** **£m**	2016 £m
145,566,431 ordinary shares of 25p each	**36.4**	36.4

Dividend
The following dividends were paid by the Group

	2017 **£m**	2016 £m
12.4 pence per allotted share (2016 - 11.0 pence)	**18.0**	16.0

23. Lease Obligations

Property, plant and equipment
The Group and Company have entered into leases on certain items of property, plant and equipment. These leases contain options for renewal before the expiry of the lease term at rentals based on market prices at the time of renewal.

The future minimum lease payments under non-cancellable operating leases are as follows:

	2017 **£m**	2016 £m
Within one year	**2.9**	2.8
After one year but not more than five years	**6.2**	7.0
More than five years	**9.3**	9.5
	18.4	19.3

24. Commitments and Contingent Liabilities

(i) Capital commitments

At 31 December 2017 the Group and Company had contracted future capital expenditure in respect of property, plant and equipment of £8.7m (2016 - £15.3m) and computer assets of £3.4m (2016 - £1.1m).

(ii) Contingent liabilities

In the normal course of business the Group has contingent liabilities arising from claims made by third parties and employees. Provision for a liability is made (as disclosed in note 20) when the directors believe that it is probable that an outflow of funds will be required to settle the obligation where it arises from an event prior to the year end.

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

Although the Tribunal stated that evidence of a loss of value was insufficient, compensation was awarded in both cases using an 'intuitive approach'. As the Company knew of no precedent for the use of such an approach, the Company lodged an appeal to the Court of Appeal. The appeal decision is expected in early 2018 and until then, it remains uncertain as to whether a liability will arise. Therefore the Company has not provided for any compensation awarded by the Tribunal in these accounts.

25. Financial Commitments

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

26. Post balance sheet events

On 5 February 2018, management tabled cost reduction proposals as part of a consultation with employee representatives which aims to reduce the number of job roles by 90 across the group (7% of the workforce) and align future pay increases with RP6 allowances.

27. 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.

	2017 £m	2016 £m
Salaries and short-term employee benefits	**1.6**	1.5
Post-employment benefits	**0.2**	0.2
Other long-term benefits	**0.1**	0.1
	1.9	1.8

The immediate parent undertaking of the Group and the ultimate parent company in the UK is ESBNI Limited (ESBNI). The ultimate parent undertaking and controlling party of the Group and the parent of the smallest and largest group of which the Company is a member and for which group accounts are prepared is Electricity Supply Board (ESB), a statutory corporation established under the Electricity (Supply) Act 1927 domiciled in the Republic of Ireland. A copy of ESB's accounts is available from ESB's registered office at Two Gateway, East Wall Road, Dublin 3, DO3 A995. A full list of the subsidiary undertakings of ESB is included in its accounts.

Related parties of the Company also include the subsidiaries listed in note 11.

27. 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 2017						
ESB	**(0.8)**	**-**	**-**	**-**	**-**	**(114.2)**
ESB subsidiaries	**-**	**19.2**	**(4.1)**	**(18.0)**	**4.8**	**(5.3)**
	(0.8)	**19.2**	**(4.1)**	**(18.0)**	**4.8**	**(119.5)**
Year ended 31 December 2016						
ESB	(0.5)	-	-	-	-	(19.2)
ESB subsidiaries	-	13.7	(3.4)	(16.0)	2.6	(4.5)
	(0.5)	13.7	(3.4)	(16.0)	2.6	(23.7)

Transactions with ESB group undertakings are determined on an arm's length basis and outstanding balances with group undertakings are unsecured. Interest charges and amounts owed to ESB relate to the RCF provided by ESB. Revenue from and amounts owed by ESB subsidiaries primarily arise from regulated sales to ESB subsidiaries. Charges from and amounts owed to ESB subsidiaries primarily arise from services purchased. Other transactions with related parties shown above relate to dividends paid to the shareholder. Amounts in relation to the back to back swaps with ESBNI Limited are detailed in note 17.

Other related parties

During the year the Group and Company contributed £29.8m (2016 - £27.6m 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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