

ANNUAL REPORT & FINANCIAL STATEMENTS

Twelve months ended 31 December 2022



CONTENTS

	Page
2022 at a Glance	3
Group Strategic Report	5
Board of Directors	31
Group Directors' Report	32
Independent Auditors' Report to the members of Northern Ireland Electricity Networks Limited	44
Group Income Statement	50
Statement of Comprehensive Income	50
Balance Sheets	51
Statements of Changes in Equity	52
Cash Flow Statement	54
Notes to the Financial Statements	55

2022 AT A GLANCE

NIE Networks provides a vital service to every home, farm and business in Northern Ireland as part of its day-to-day work in delivering electricity supplies. Through its mainstream business activities and various specific initiatives, NIE Networks seeks to make a positive impact on the communities in which it operates in line with the Company's values.

We're Safety focused

The Company continued to progress its Safer Together Programme in 2022. As part of the over 20,000 hours invested across the business, we made significant revisions to policies around safety mentoring, reporting practices and learning and development activities. The Safer Together Programme continues to refocus the Company's commitment to its safety value, through promoting an open and proactive safety culture with the full involvement of all. The requirement for this ongoing commitment is reinforced by the fact that the Company continued to have a small number of lost-time injuries for staff and contractors in the year, notwithstanding our increased focus on a zero harm environment.

We're People focused

NIE Networks aspires to be an Employer of Choice and 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.

In 2022, we retained the Bronze Diversity Charter Mark for our work in promoting gender diversity and were awarded the Silver Diversity Charter Mark in early 2023. As an accredited 'Investors in People Gold' Company, we increased our headcount to ensure we continue to deliver a high-quality service for our customers and to enable the Company to deliver on its commitment to transform the energy system.

We're Customer focused

2022 saw NIE Networks continue to deliver on its commitments to customers with a further investment of over £128 million in the network alongside a continued strong performance on network availability, with Customer Minutes Lost maintained at historically low levels. Capital investment in the network increased by more than 21% on 2021 levels and unit outputs delivered remain in line with the targets agreed with the Utility Regulator (UR) as part of the RP6 programme.

In addition to continually delivering significant investment in the network, NIE Networks had a commitment in the RP6 Business Plan to reduce the number of annual complaints by 20% by the end of the price control period. We surpassed this target in 2022 with an equivalent reduction of c.25% from RP5 levels. While there has been a significant reduction in complaints in recent years, the Company recognises that there is an ongoing requirement to focus on our complaints handling as evidenced by the fact that we have seen an increase in the number of complaints (three) referred to the Consumer Council of Northern Ireland.

NIE Networks worked with a range of government and industry stakeholders during 2022 to support customers through the cost of living crisis through implementation of the Energy Price Guarantee and design of the Energy Bills Support Scheme. Supporting customers through these schemes, as well as helping the most vulnerable in society through implementation of the Company's Vulnerable Customer Strategy, remain key priorities for the Company. Around 16,000 customers are registered with the Company's medical customer care information service, which represents an increase of 110% since the start of RP6.

We're Commercially focused

NIE Networks generated an operating profit for 2022 of £117 million, down slightly from 2021 due to an increase in costs albeit profit after tax increased to £57 million with a reduction in tax charges. As a key infrastructure provider, NIE Networks reinvests profits into the electricity network, with net capital expenditure up £27 million to £154 million in the year.

The Group successfully raised £350 million on public debt markets in November 2022 which will support continued investment in the electricity network to the start of the RP7 period.

Over £157 million was contributed to the Northern Ireland economy in 2022 through employment of over 1,300 people and payments to local business and authorities.

We're Future focused

NIE Networks made significant progress in developing its RP7 Business Plan for submission to the UR in early 2023. This process involves significant planning, analysis and consultation, including engagements with key stakeholders, to ensure that the plan for RP7 delivers the transformational change required to decarbonise the energy system and ensure maximum benefits for customers. The first steps in the public consultation on the proposals that will make up RP7 took place in October and November 2022. The Company is working to ensure that the views expressed are built into the final submissions to the UR in 2023. NIE Networks' proposed plans for the RP7 Price Control are intended to deliver transformational impact for customers.

NIE Networks is putting in place plans to make sure that it is well placed to manage and optimise the network for a future with more electrification, microgeneration and demand flexibility. We are implementing a range of innovation projects designed to create additional capacity on the distribution network at a lower cost than traditional solutions.

NIE Networks collaborated with the Department for the Economy (DfE) and other NI stakeholders on the development of Northern Ireland's future energy framework which was published in December 2021. The DfE strategy sets a target of net-zero carbon and affordable energy and key elements of the strategy are enshrined in the Climate Change Act (Northern Ireland) 2022. Many elements of the Company's own Networks for Net Zero report are included in the DfE strategy and there is strong alignment between the two strategies.

We are developing a complete baseline for all of the Company's carbon-intensive activities and setting both near-term reduction targets and long-term net zero targets that comply with Science Based Targets initiative (SBTi) criteria and requirements. SBTi have accepted the Letter of Commitment submitted by the Company in 2022.

NIE Networks achieved Platinum level accreditation for the NI Environmental Benchmarking Survey for the sixth consecutive year in 2022. The survey recognises and rewards those organisations that are going above and beyond their legal requirements to improve their environmental impacts and better manage their resources.

More information on each of the developments above can be found within the Group Strategic Report and Group Directors' Report.

GROUP STRATEGIC REPORT

The directors present their annual report and financial statements for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (the Group) for the year ended 31 December 2022.

The Board of directors of the Company who served during the year and up to the date of signing this report are outlined in the Group Directors' Report on page 31.

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

The Group financial statements have been prepared in accordance with in accordance with the Companies Act 2006 as applicable to companies using FRS 101. UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

The Company financial statements have been prepared in accordance with FRS 101 – Reduced Disclosure Framework and the Company has taken advantage of certain disclosure exemptions allowed under this standard as detailed in Note 2 of the Notes to the Financial Statements.

The financial statements of the Group and the Company have been prepared under the historical cost convention except for the following:

- financial derivative instruments are measured at fair value through profit or loss; and
- defined benefit pension plan assets are measured at fair value.

Ownership

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

Business Model

Principal Activities and Regulation

NIE Networks is the owner of the transmission and distribution networks in Northern Ireland and the distribution network operator. SONI Limited (SONI), a separate company owned by EirGrid plc, is the transmission system operator and is responsible for transmission system design and planning. The Group's principal activities are:

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

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

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

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

The transmission and distribution networks comprise a number of interconnected networks of overhead lines and underground cables which are used for the transfer of electricity to around 910,000 customers via a number of substations. This network ensures that electricity produced by generators is delivered to consumers through their nominated supplier. NIE Networks does not generate, buy or sell electricity, or send any bills to electricity consumers (apart from charges for new or upgraded connections to the network).

During the year an estimated 7.3TWh of electricity was transmitted and distributed to customers in Northern Ireland. There are 2,300km of transmission network, 47,000km of distribution network and 340 major substations including 60 large wind farm sites. NIE Networks' transmission system is connected to that of RoI through a 275kV interconnector and to that in Scotland via the Moyle Interconnector. There are also two standby 110kV connections to RoI.

In addition to its core network activities, NIE Networks provides meters to consumers and takes meter readings. It is responsible for managing market registration processes and the provision and maintenance of accurate data to support the operation of the competitive retail and wholesale electricity markets.

Market Registration and Change of Supplier processes facilitate consumers switching suppliers in a timely manner in accordance with retail market rules and aggregated data is provided to the Single Electricity Market Operator on a daily basis for settlement of the wholesale market.

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

Revenues

The Group derives its revenue principally through charges for use of the distribution system and Public Service Obligation (PSO) charges levied on electricity suppliers as well as charges for transmission services (mainly for use of the transmission system) levied on SONI. Revenue through charges for new demand and generation connections is received from the customer in accordance with NIE Networks' Statement of Charges for Connection to NIE Networks' Distribution System, which is reviewed by the Utility Regulator at least annually to approve the charging methodology.

Price controls

NIE Networks is subject to periodic reviews in respect of the prices it may charge for use of the transmission and distribution networks in Northern Ireland. Regulatory Period 6 (RP6) commenced on 1 October 2017 and will apply for the period to 31 March 2024. In the Utility Regulator's paper on its approach to the RP7 Price Control, published in July 2022, the Utility Regulator confirmed its intention to consult on licence modifications for a one-year extension to the RP6 price control with the RP7 price control period in turn being deferred by one year and set to commence on 1 April 2025 and run to 31 March 2031. Subsequently, a public consultation on the RP6 extension period was launched in January 2023 with the outcome expected in March 2023.

The RP6 price control sets ex-ante allowances of £902 million for capital investment and £590 million in respect of operating costs (stated in 2022-23 prices) for the period to March 2024. Additional allowances in respect of major transmission load growth projects, for example, the North-South Interconnector, are considered on a case-by-case basis. The allowances are 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 3.27% plus inflation (weighted average cost of capital based on pre-tax cost of debt and post-tax cost of equity) has been adjusted to reflect the cost of new debt raised in RP6. This mechanism is new for RP6, departing from the former approach of setting an ex-ante allowance, and will align the cost of debt component of the return more closely with prevailing market conditions at the time of drawdown of new debt.

Strategy

NIE Networks' strategic direction is determined by obligations under its Transmission and Distribution licences as well as a commitment to the development of a low carbon energy framework for Northern Ireland. Its vision of 'Delivering a Sustainable Energy System for All' sets the specific goal NIE Networks aspires to in the future, providing

direction for the Company within the changing external landscape in which it operates. NIE Networks' values are being Safety-, People-, Customer-, Commercially- and Future-focused.

NIE Networks' Purpose aligns with ESB Group's Purpose statement: "At ESB, we are driven to make a difference. Delivering a brighter future; creating and connecting sustainable, reliable, affordable energy; and supporting the customers and communities we serve to achieve net zero."

NIE Networks' strategic objectives are:

- the health, safety and wellbeing of employees, contractors and the general public;
- enabling Northern Ireland's transition to an effective, sustainable and affordable low carbon energy system;
- strong customer service performance by providing a reliable and effective electricity service for Northern Ireland and an excellent experience for customers engaging with the business;
- continued investment in Northern Ireland's electricity infrastructure to: replace worn assets; facilitate increased customer demand; improve the reliability of the network; and facilitate the connection of further renewable generation;
- performance through people by ensuring a working environment that maximises the potential of employees;
- delivery of better performance for stakeholders through a competitive and transparent cost base;
- maintenance of a strong investment grade credit rating; and
- effective stakeholder engagement.

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

Financial Review

Financial Key Performance Indicators (KPIs)

Operating Profit

The Group's operating profit as reported in the financial statements was £117.1m for the year to 31 December 2022, a decrease of £6.5m on the previous year. Group revenue of £302.5m has increased by £5.5m, primarily reflecting a £19.3m increase in revenues associated with the PSO; partially offset by a £13.5m decrease in Distribution Use of System revenue. Group operating costs have increased by £12.0m in the year as a result of inflationary pressures on the Company's cost base and increased staff costs reflective of recruitment during the year to enable the Company to deliver on its commitments to transform the energy system.

PSO revenue allows NIE Networks to recover the net cost of supporting industry programmes such as the Northern Ireland Sustainable Energy Programme. PSO revenue is earned over time in line with the use of system by suppliers under the schedule of entitlement set by the Utility Regulator for each tariff period. Over time, PSO related income and costs net to nil, albeit there are timing differences between the receipt of revenue and payment of costs. The net PSO income included in operating profit in the current period is £12.9m (2021: net expense of £6.6m).

Tax Charge

In March 2021 the UK Government announced that future Corporation Tax rates would increase from the current rate of 19% to 25%, effective from 1 April 2023. The effect of the increase in the expected future Corporation Tax rate (enacted in May 2021) has resulted in a charge to the Income Statement of £5.7m in the year, which is in addition to the £31.1m recognised in 2021.

Funds from Operations Interest Cover

The Group considers the ratio of Funds from Operations (FFO) to interest paid to be one of the key internal measures of the Group's financial health. FFO interest cover indicates the Group's ability to fund interest payments from cash flows generated by operations and is a measure used by external reference agencies when assessing the Group's credit rating. The ratio, as shown in note 6 to the financial statements, at 5.0 times for the year (2021 – 5.1 times) is above the target level of 3.0 times.

Net Assets

The Group's net assets of £548.7m increased by £57.9m on the previous year reflecting profit after tax of £57.3m and in-year re-measurement gains (net of tax) of £31.1m on net pension scheme assets and a one-off tax credit of £6.1m recognised directly in equity, offset by a dividend paid to the shareholder during the year of £36.6m.

Following changes in legislation during 2022, NIE Networks recognised a provision of £30.9m in respect of future costs associated with the disposal of creosote treated wood poles. A corresponding asset was recognised in property, plant and equipment in line with applicable accounting standards. Further details are included in Notes 2 and 23.

Cash Flow

Cash and cash equivalents increased by £67.1m during the year reflecting net cash inflows from operating activities of £121.5m and £346.0m net proceeds following the issue of a bond. These inflows were offset by investing activity out flows of £150.9m (reflecting the Group's continued investment in the network), the £36.6m dividend paid, repayment of £2.9m of lease liabilities and repayment of the Group's Revolving Credit Facility (RCF) of £40.0m (net). In addition to £77.9m of cash and cash equivalents, the Company has £170.0m of short-term investments which have been deposited with financial institutions for three to six months and are due to mature in May 2023.

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 24 to the financial statements.

The Group's debt finance at the year end comprised bonds of £350.0m, £350.0m and £400.0m (£349.2m, £346.0m and £399.3m respectively net of issue costs) which are due to mature in October 2025, December 2032 and June 2026 respectively. The Group has access to a £100.0m RCF from ESB, none of which was drawn down at the year end. The RCF is due to mature in December 2025.

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

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

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

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

Interest Rate Risk

The £350.0m, £350.0m and £400.0m bonds are denominated in sterling and carry fixed interest rates of 2.500%, 5.875% and 6.375% respectively.

Given that 100% of the Group's total borrowings at December 2022 carry a fixed interest rate, the Group does not consider that it is significantly exposed to interest rate risk.

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

In 2011, following the novation of the swaps to NIE Networks, the Company entered into back-to-back RPI linked interest rate swaps with ESBNI Limited (ESBNI), the immediate parent undertaking of the Company, which have identical matching terms to the swaps. The back-to-back matching swaps with ESBNI ensure that there is no net effect on the financial statements of the Company and that any risk to financial exposure is borne by ESBNI. Further details of the swaps, including fair values and details of restructuring in 2021, are disclosed in note 20 to the financial statements.

Credit Risk

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

Year to 31 December	2022	2021
	£m	£m
Cash and cash equivalents	77.9	10.8
Trade and other receivables (excluding prepayments and accrued income)	53.2	48.3
Short-term investments	170.0	-
Other financial assets – current and non-current	498.2	605.1
	799.3	664.2

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 18 to the financial statements.

Short-term investments represent monies placed on deposit with financial institutions for periods of greater than three but less than six months. The balance at December 2022 represents proceeds available after raising a bond in November 2022 which were placed on deposit for the purpose of earning a return prior to being invested in the network.

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

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

Further information on financial instruments is set out in the notes to the financial statements.

Going Concern

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

On the basis of their assessment of the Group's financial position, which included a review of the Group's projected funding requirements for a period of not less than 12 months from the date of approval of the financial statements along with potential severe but plausible downside sensitivities, 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 financial statements.

Operational Review

Operational KPIs

NIE Networks uses a number of s (KPIs) to measure progress towards achieving operational objectives. Performance during the year is summarised below:

KPIs – Year to 31 December	2022	2021
Health & Safety:		
Lost time incidents (<i>number of</i>)	2	2
Network Performance:		
Customer Minutes Lost (CML)		
• Planned CML (<i>minutes</i>)	38	38
• Fault CML (<i>minutes</i>)	38	42
Customer Service:		
Overall standards – defaults (<i>number of</i>)	1	1
Guaranteed standards – defaults (<i>number of</i>)	52	None
Stage 2 complaints to the Consumer Council (<i>number of</i>)	3	None
Connections:		
Customer demand connections completed including non-recoverable alterations (<i>number of</i>)	3,690	4,801
Sustainability:		
Reduction in non-network carbon emissions (<i>vs 2019 baseline</i>)	10.5%	10.1%
Waste recycling rate	97.1%	97.1%
Staffing:		
Headcount (at 31 December)	1,367	1,229
Absenteeism	3.4%	3.5%

Responsible Business Review

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.

2022 saw NIE Networks continue to deliver on its commitments to customers with a further investment of over £128m in the network alongside a continued strong performance on network availability with Customer Minutes Lost (CML) maintained at low levels.

The key developments and achievements across the business during 2022, including principal Corporate Social Responsibility initiatives, are outlined below.

Health, Safety and Wellbeing

Ensuring the health, safety and wellbeing of employees, contractors and the general public continues to be the focus of our safety value within NIE Networks. Our ambition is to provide a zero-harm working environment where risks to health, safety and wellbeing are assessed and controlled. While NIE Networks will continue to strive towards our ambition of zero for lost time incidents, there were two incidents during the year (2021 – two lost time incidents). Both of the incidents in 2022 occurred with work away from the network and involved a slip, trip or fall (not inherent risk) and each incident has been investigated internally.

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

In 2020 we developed an enabling action plan to improve adherence to our safety value, reduce the risk of harm and improve the wellbeing of our staff. The “Safer Together – Our Pathway to Zero Harm” programme is a continuing priority for NIE Networks into 2023. In April the Board approved changes to the Executive Committee structure including the repositioning of the HR Director role as Executive Director, People & Culture and to include the Health & Safety function within that Directorate. Furthermore, the continuing Safer Together journey involves partnering with consultants to further evolve the culture of the organisation. Work commenced in January 2023 on safety culture to develop a proposed programme of works over three years with the goal of having a significantly different culture by the end of year three that will continue to evolve and improve by embedding skills within our own workforce to ensure skills are sustainable.

The Safer Together Programme has had ongoing input from, and engagement with, staff across the business and aims to refocus our commitment to our safety value, through promoting an open and proactive safety culture with the full involvement of all. This is being reinforced through strong and visible leadership and the development of a series of safety improvements. As a result of the Safer Together programme we have already made significant changes in many aspects of our operations. A new Technical Assurance Manager was appointed with the support of a team of seven mentors (expert and experienced in their own fields) to provide support and mentoring across all operational roles. Site Safety engagements have been reviewed and further developed into a much more engaging and supportive process including training, coaching and refreshed recording and reporting forms. Our overall approach to incident investigation and management of issues will be guided by a new ‘Fair and Just’ approach.

Safety Engineers are aligned with organisational structures through a Business Partner relationship which facilitates integration of skills and allows influence and support. During 2022, the Safety Team continued to support all business units with particular focus on the following areas:

- the reporting, analysis and investigation of “near miss” events which is key to reducing harm. The quality of reports continued to improve with an increase in reports detailing “unsafe acts”. Each report is analysed by a team of Safety Engineers to ensure consistency and accurate follow-up, enabling further improvements in equipment and operational procedures to be identified and addressed;
- formal incident investigation procedures with monthly reporting to the Health and Safety Management Committee;
- two external ISO audits were completed with zero non-conformances identified;
- continued programme of formal safety training for employees and contractors, including safety seminars delivered to all staff to increase risk awareness and perception and the publication of a monthly Safety newsletter;
- 3,334 site safety engagements completed, the focus of which was to provide coaching, mentoring and to encourage good site behaviours while ensuring compliance with safety rules. In line with the Leadership and Engagement principles these were completed by a range of staff including Executive Committee members, business unit managers, health and safety engineers and front-line managers;
- continued focus on identifying the causes of road traffic incidents including post-incident driver appraisals and training where required; and
- a programme of health and wellbeing checks, health screening and lifestyle advice was made available to all staff with nearly 343 employees receiving a MOT health check or Atrial Fibrillation & Blood Pressure check. Qualified external providers provided these health checks at 11 of our locations. In addition, our occupational health provider carried out flu vaccine clinics where 300 employees received the flu vaccine at our various locations.

A further 15 mental health first aiders were trained in 2022 and a key objective for managers during 2023 will be to ensure regular engagement and awareness of mental health is embedded in their interactions with their teams including through one-to-one meetings and the Personal Development Journey (PDJ) process. The PDJ process is designed to be used constructively to recognise good performance, seek performance improvements where required and to identify potential in employees.

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

During the Covid-19 pandemic, NIE Networks assessed related generic and dynamic risks and identified additional control measures and mitigation that would be required. Along with numerous guidance documents, the Group also increased communications around Health and Wellbeing, which included guidance for those working from home; all of which were continually reviewed with input from the Crisis Management Team.

Electricity provides a vital service for everyone in Northern Ireland, but it has the potential to be dangerous if the appropriate protections are not maintained. NIE Networks aims to continually heighten and improve the awareness of those in the close vicinity of the electricity network. NIE Networks' Public Safety programme addresses the Group's legislative obligations in respect of safety and involves employees from across the Group.

While Covid-19 restrictions prevailed, the Group's Public Safety Campaign was delivered by alternative media including via radio messages, newspaper and associated digital adverts. Delivered through both mainstream media and agricultural media, it enabled targeted messaging to the relevant sectors with an estimated coverage of 137,000 people. Safety presentations were made to contractors across the industry and to other utilities and their contractors whilst adhering to the Covid-19 protocols. Safety advice is available on the website at www.nienetworks.co.uk/safety.

In September 2022, a private operator working for a landowner was fatally injured while carrying out preparations for maintenance activities in close proximity to an overhead line. The circumstances of the incident are being investigated by the HSENI. NIE Networks has carried out a separate internal review of the circumstances around the incident while also providing any support to the HSENI inquiry. NIE Networks continues to promote public awareness of the hazards associated with electricity.

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

Network Performance

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

During 2022, NIE Networks continued to efficiently manage outages required for essential maintenance and development to minimise the occasions and length of time that customers were off supply, which was particularly important as a greater number of customers continue to work from home. Performance of the distribution network is measured in its availability – the number of minutes lost per customer (CML).

CML due to planned outages is the average number of minutes lost per customer for the period through pre-arranged shutdowns for maintenance and construction. The average number of planned CML for 2022 was 38 minutes which was the same as in 2021. The average number of CML due to faults on the distribution network in 2022 was 38 minutes (2021 - 42 minutes). Each measure is calculated excluding incidences where Severe Weather Exemptions have been applied as agreed with the Utility Regulator.

NIE Networks continues to test and confirm the robustness of its emergency response capabilities during severe weather events in order to effectively restore supply to all customers. The significant commitment from staff across the business helps to ensure that NIE Networks manages effectively this very important aspect of the business with every employee having an "escalation role" in addition to their normal day-to-day role. During the year, 92.7% (2021 – 93.0%) of electricity supplies were restored within three hours, far exceeding the regulatory standard of 87%.

During the year there were four occasions where adverse weather caused damage to the network and affected several thousand customers' supplies. On each of these occasions, 100% of affected customers' supplies were restored within 24 hours.

Customer Service and Care

The Utility Regulator sets overall and guaranteed standards of performance. The majority apply to services provided, for example, the timely restoration of customers' supplies following an interruption, meter readings in the period and prescribed times for responding to customers' voltage complaints. In 2022 there were 52 defaults against guaranteed standards of performance for customer service activities delivered; there was one failure against overall standards (OS7 – for the 12-month period ending 31 March 2022). The number of defaults against guaranteed standards in the year was largely due to an increase in the complexity in new connections requests which, in turn, mean that they are more difficult to deliver within the prescribed timing. Management have taken steps to review processes and procedures and implement changes in readiness for a continued increase in demand as customers seek to install low carbon technologies.

As an organisation, NIE Networks strives to engage with customers professionally and courteously while being respectful of their individual needs. During 2022 NIE Networks faced specific challenges, particularly in its Contact Centre, given the increasing difficulties customers were facing in terms of the cost of living crisis. This resulted in a significant increase in the number of customer calls to the Contact Centre; on average around 30% of all calls received were billing or supplier related.

Specific training was organised for Contact Centre staff to help deal with these calls. The training focused on identifying vulnerable customers and dealing with difficult situations, how best to signpost to the relevant support group whilst ensuring customers felt supported and valued by ourselves, and building resilience of those involved in often challenging conversations.

The focus on managing customer complaints continued in 2022 where there was a 20% decrease in the number of complaints received, compared with the previous year. There has been an increased focus on customer communication and individual complaints received are analysed and assessed, based on the specific circumstances, to determine whether or not the complaint was avoidable, in order to help prevent recurrence.

The continued strong focus on customer service limits the number of instances when customers are dissatisfied to the extent that they refer a complaint to the Consumer Council for Northern Ireland (CCNI) for review (Stage 2 Complaints). During the year, there were three Stage 2 Complaints taken up by the CCNI on behalf of customers (2021 – none).

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

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

Arrangements are in place with ESB Networks, Northern Ireland Water, Openreach Northern Ireland and Phoenix Natural Gas to provide mutual support, such as sharing resources and equipment, so that customers' utility supplies can be restored more quickly during periods of severe weather or other emergency situations. In addition, together with district councils, emergency planners, health trusts and other organisations, NIE Networks has arrangements in place to respond to wider community needs in the event of customers being without electricity for an extended period of time due to severe weather or an emergency situation. A Winter Readiness communications campaign is in place to ensure homeowners have the utility companies' contact details should they need them.

NIE Networks teams provided significant support to distribution network operators in GB and RoI to reconnect customers whose electricity supplies were disrupted during severe weather events in early 2022.

NIE Networks' medical customer care information service is a priority service for customers who rely on electricity for their healthcare needs with customers or their carers receiving prioritised information on faults or planned work on the network. Around 16,000 customers are registered for the service which represents an increase of 110% since the start of RP6.

During the year, NIE Networks continued to roll out its Vulnerable Customer Strategy supported by a vulnerable customer campaign using advertising mediums including billboards, buses, radio, television, newspaper and social media. This strategy focuses on household customers who are dependent on electrically powered equipment (including life-protecting devices, technologies to support independent living and medical equipment), or are identified as needing extra support due to their personal characteristics or circumstances.

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

NIE Networks continued its partnership with the NOW Group, the social enterprise that supports people with learning difficulties and autism into employment, on its JAM Card initiative. JAM stands for Just A Minute and is a card originally designed as a way for people with communications difficulties to ask for some more time to complete their activities.

Connections

NIE Networks' Connections business provides safe, secure, reliable and timely electricity connections to the distribution system within Northern Ireland. Connections work typically involves: connecting new or additional load, altering the network, or connecting generators to the distribution network. The drive towards a decarbonised society is now driving significant interest in connections of low carbon technologies such as electric vehicle chargers and electric heat pumps to the network.

Typically, the Connections business connects approximately 9,000 customers each year to the electricity network, powering homes, businesses, farms and connecting renewable and low carbon technologies. The number of new connections completed during the year decreased to 7,977 from 8,888 in 2021, reflecting uncertain economic conditions following Covid-19, Brexit and surges in inflation as the cost of living crisis impacted all market segments. In addition, the current geopolitical instability as a result of the Russia-Ukraine war along with the GB political variability has contributed significantly to the number of connections completed.

Significant elements of the market for new connections have been open to competition since March 2018. For 'contestable' elements of connections, customers can choose whether to accept a quotation from NIE Networks or to engage an accredited Independent Connection Provider (ICP) to design and construct the connection. There are a number of accredited ICPs registered to complete the 'contestable' elements of connections in Northern Ireland. ICPs must adhere to NIE Networks' policies and technical specifications when completing the contestable works. Further information in relation to Competition in Connections for customers and ICPs is available on NIE Networks' website.

Following a consultation process to explore the possibility of further extending contestability in electricity connections, the Utility Regulator published 'Expanding the Scope of Contestability in Northern Ireland – Next Steps' in July 2021, which stated that it aimed to establish contestability for low voltage final connections to the distribution network. NIE Networks is now at the final stages of implementing this important change, that is subject to market participants coming forward, and continues to engage with the Utility Regulator and the relevant stakeholders to establish contestability for low voltage final connections during 2023.

NIE Networks continues to play a critical role in providing connections for renewable energy sources including connection of a windfarm cluster substation at Garvagh in late 2021, which provided capacity for 90MW of renewable generation to be connected to the distribution network. To date, NIE Networks has successfully connected around 21,000 generators providing renewable generation capacity to the network, significantly adding to the available market capacity and resulting in approximately 1.8GW of renewable capacity now connected to the network. In addition, there continues to be interest from generators to connect potential further renewable capacity to the network. The latest statistics show that 51% of annual electricity consumption in Northern Ireland for the twelve months to 31 December 2022 was generated from renewable sources: this is up from 42% during 2021 and is the second highest rolling 12 month outcome on record.

The renewable future of Northern Ireland is dependent on good partnership and collaboration with industry participants, customers and other stakeholders. NIE Networks continues to work closely with all these stakeholders, including proactively contributing to the DfE's Energy Strategy for Northern Ireland, published in December 2021, and is working towards an objective to meet at least 80% of electricity consumption from renewable sources by 2030.

NIE Networks has continued to actively participate in the Connections Innovation Working Group to consider and progress appropriate solutions which facilitate the connection of further Distributed Energy Resources (DER) in Northern Ireland. Following a joint consultation issued by NIE Networks and SONI, a Decision Paper was published during 2021 which confirmed that NIE Networks will provide connection offers with non-firm market access to distribution generators of 5MW and above. This new process became effective from January 2022 and is expected to result in increased numbers of renewable generators being able to connect to the distribution network.

As Northern Ireland works towards the target of a net zero carbon economy by 2050, the electrification of heat and transport will play a fundamental role in meeting that target. NIE Networks will ensure that, through the right planning and investment, it can minimise costs for customers and support them in their efforts to cut emissions and live a more sustainable life. NIE Networks encourages customers who have installed, or plan to install, an electric vehicle charger, to notify us through our website. This information is important to ensure that the Company invests in the electricity network where needed to safely and reliably meet the increase in electricity demand required to support these technologies.

There has also been an increase in interest from customers connecting integrated micro generation and battery storage through the Company's G99 Fast Track process during the year. The Connections business will continue to provide an excellent service to customers connecting to the network whilst facilitating competition in the connections market.

Network Investment

In 2022 NIE Networks invested £128.7m (2021 - £105.7m) in the transmission and distribution networks. This investment was primarily related to the refurbishment and replacement of aged transmission and distribution assets to maintain reliability of supply and ensure the safety of the network. The increase in investment from the previous year is reflective of continued efforts to ramp up delivery following the impact of the Covid-19 pandemic on core work programmes and a step change in the value of standalone major transmission projects work delivered in the year.

Almost 1,650km of transmission and distribution overhead lines were refurbished as part of an ongoing programme during the year. In addition, tree cutting, which is an essential programme of work to maintain the network's resilience to storm conditions and reduce network fault rates, was performed across 8,000km of overhead lines.

Significant volumes of asset replacements were also delivered on underground and substation assets totalling 3,300 units during the year.

Substantial progress was also made in delivering the ongoing Electricity Safety, Quality & Continuity Regulations (ESQCR) programme of work to improve the safety of equipment on the network. Following a risk assessment, permanent solutions were put in place at 70 locations with significant volumes of signs, stays and clearances delivered against planned programmes.

Other key investments included ongoing construction works necessary to refurbish the existing 275kV double circuit tower line between Coolkeeragh Power Station and Magherafelt Main substations, which is a key strategic supply to the North West of Northern Ireland. This project, which represents the biggest standalone investment undertaken by NIE Networks in recent years, was substantially completed in 2022. Construction works also commenced on the refurbishment of the 110kV overhead line circuit between Ballylumford Power Station and Eden main substations. Pre-construction works were completed in respect of the planned refurbishment of the 110kV overhead line between Omagh and Dromore and construction commenced toward the end of the year and is expected to complete in 2023.

During 2022, NIE Networks continued to make progress in its transition from a Distribution Network Operator (DNO) to a Distribution System Operator (DSO). This included the continued progression of a number of innovation projects with the objective of developing cost-effective alternatives to conventional network investment while maintaining system capacity and capability.

Works commenced during the year following an approval of c.£50m granted by the UR in relation to Green Recovery to undertake projects aimed at ensuring that Northern Ireland is well positioned to achieve its future decarbonisation targets.

Market Operations

During the year, NIE Networks achieved over 99.9% compliance with its regulatory standards in respect of customer appointments for metering services. Separately, approximately three million visits are made each year to customer properties to take meter readings to ensure that electricity consumption is calculated accurately, thereby minimising the number of estimated bills issued by electricity suppliers. Challenges still exist as a result of change of customer behaviour due to Covid-19, and the increased difficulty in obtaining access to properties, which resulted in obtaining a meter reading for 99.1% of customers against an overall target of 99.5% in the period to 31 March 2022.

NIE Networks has certain obligations under the Trading and Settlement Code to provide aggregated meter data for the purposes of settlement of the wholesale Integrated Single Electricity Market and continued to be compliant with these obligations throughout the year. NIE Networks continued to operate the retail market arrangements in accordance with the Market Registration Code and associated agreed procedures.

NIE Networks has been working closely with the UK Government and electricity suppliers to implement a number of energy support schemes for Domestic and Non-Domestic customers. A number of industry working groups have been established to facilitate the three new Government energy support schemes; Energy Bill Support Scheme (EBSS), Energy Price Guarantee (EPG) and Energy Bill Relief Scheme (EBRS). The EBSS and EPG schemes are for Domestic customers and the EBRS scheme is for Non-Domestic customers. NIE Networks is the data provider for the EBSS and EPG schemes and support for the schemes will continue into 2023.

A major programme to replace meters that have reached the end of their life cycle continued during the year with the replacement of approximately 24,000 meters. Around 45% of customers' meters have now been replaced since this programme commenced in 2015. Installation of around 1,000 smart meters for a trial scheme commenced during the year in preparation for any potential future roll out of Smart Metering. NIE Networks is continuing to analyse the data received from the smart meters to understand how the data can be used in network planning.

Environmental Social and Governance (ESG)

Responding to interest from investors and stakeholders, during 2022 NIE Networks initiated the development of its Environmental, Social and Governance (ESG) strategy. NIE Networks aims to demonstrate, through its reporting regimes, (1) adherence to globally recognised ESG frameworks, (2) its clear net zero transition plan, and (3) that it is an organisation where its people can make a difference to local communities and the environment.

NIE Networks already carries out a significant level of ESG-related activities, and currently reports energy usage and carbon emissions in line with the mandatory Stream-lined Energy and Carbon Regulations (SECR) (pages 39 to 41). NIE Networks expects that its sustainability, environment and wider ESG disclosures will be further enhanced and evolve over the coming years to promote transparency and provide updates on progress made against its commitments.

NIE Networks has developed a roadmap for enhancing its ESG reporting including consideration of early voluntary disclosure to the Taskforce for Climate related Financial Disclosures (TCFD) framework, and potentially others such as Global Reporting Initiative (GRI) and Carbon Disclosure Project (CDP) over the coming years.

The Company is currently implementing an ESG IT repository and reporting tool to help fulfil its sustainability, environment and ESG data reporting requirements going forward.

Sustainability

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

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

NIE Networks has submitted its Letter of Commitment to the Science Based Target Initiative (SBTi) and has joined the United Nations' Race to Zero campaign. It has committed to a 50% reduction in its carbon emissions by 2030 and Net Zero by 2050 or sooner. Progress against energy and carbon reduction targets is provided in more detail as part of the Streamlined Energy and Carbon Reporting (SECR) statement on pages 39-41, along with details on business carbon footprint performance. In 2022, NIE Networks reduced its business carbon footprint by 10.5% against the 2019 baseline.

During 2022 Climate and Energy Awareness Training was delivered to all staff, as a follow up to previous training completed on Climate Action in 2021. The training was designed to raise awareness amongst staff and empower them to act to reduce energy usage in their daily activities at work and at home.

Environment

NIE Networks' Environmental Policy commits to protecting the environment and mitigating the impact of its activities on the environment. NIE Networks is also committed to aligning its business with social objectives and supporting local environmental organisations to protect and improve the environment in Northern Ireland. The Environmental Management System is certified to ISO14001, it is designed to ensure compliance with all relevant legislative and regulatory requirements and to promote continual improvement. NIE Networks seeks to be an industry leader, developing standards and best practice solutions where possible.

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

During 2022 the Company continued to focus on each of the following areas:

- waste management targets with the recycling rate for all hazardous and non-hazardous waste (excluding excavation from roads and footpaths, civil projects excavation and asbestos removal) remaining high at 97.1% (2021 – 97.1%);
- managing environmental incidents and ensuring clean up procedures are followed where environmental incidents occur; and
- a continued reduction in energy usage across operational sites.

Two external audits of ISO14001 were completed during 2022 with zero non-conformances identified. An Internal Audit was also completed during the year and rated ‘substantial’ in terms of the level of assurance, indicating a mature system with adequate, appropriate and effective assurance that risks are managed and objectives are met.

To support its environmental programme, ISO14001 targets and the continual improvement of its management system, NIE Networks has developed a number of key partnerships with local bodies including Ulster Wildlife, The Conservation Volunteers and the Royal Society for the Protection of Birds NI. As part of these partnerships, NIE Networks has worked to develop employee understanding of wildlife they may come across in their day-to-day duties, facilitated tree planting sessions across the province, litter picking and other environmental outreach.

During 2022, NIE Networks became an engaged member of the Responsible Plastic Management (RPM) scheme as part of our drive to avoid the use of single use plastics across the business. Through engagement with RPM, NIE Networks, in conjunction with its suppliers, has begun to identify, measure, manage and validate its efforts in responsible plastic management to help protect the land, oceans, rivers and water systems from plastic contamination. This will allow NIE Networks to identify areas where it can eliminate problem plastics and reduce and recycle responsibly.

During 2022 emergency spill training was delivered to relevant staff as a follow up to previous training completed in 2021. The refresher training was designed to ensure staff are familiar with the emergency procedure in the event of an oil spill to prevent oil from entering waterways.

NIE Networks is a committed participant of Belfast City Council’s Million Trees Project, and the RSPB peatland restoration project.

NIE Networks achieved the top level “platinum” award in Business in the Community (Northern Ireland) Environmental Benchmarking Survey for the sixth consecutive year in 2022. This survey recognises those organisations that go above and beyond their legal requirements to improve their environmental impacts and better manage their resources.

People

Central to NIE Networks’ people strategy is the recruitment, development, training and retention of highly skilled employees for core strategic activities, working in partnership with bought-in-services as appropriate. This ensures that knowledge and skills are retained, allows greater agility and flexibility to redeploy employees where needed, and builds a strong inclusive culture of engaged employees motivated to deliver business objectives. Having this agility and flexibility during 2022 has been essential in dealing with the enduring legacy of the Covid-19 pandemic, allowing employees to operate effectively while also responding positively to the challenges and opportunities for employees at all levels.

Against the challenges of delivering the outputs required in the RP6 price control within the allowances set, management has continued to focus on ensuring there are appropriate levels of skilled resources in place delivering efficiently while also recognising the need to continue to develop our current employees through upskilling, increased responsibilities and creating opportunities for retraining.

The number of employees at the end of 2022 was 1,367 (2021 – 1,229).

Training and Development

NIE Networks seeks to attract, develop and retain highly skilled people through its award-winning apprenticeship programme, higher level apprenticeship pathways, as well as graduate, apprentice-to-graduate and scholarship programmes. These programmes provide our future talent pipeline. Our Technical Training Centre, which includes apprentice training, continued to maintain extremely high standards in training and achieved an “Outstanding” classification against the Education and Training Inspectorate framework. This year we also offered, and successfully recruited, a number of industrial placement undergraduate roles across a diverse range of departments including

Communications, Customer Relations, Sustainability & Environment, IT and HR; as well as expanding our Higher Level Apprentice 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 personal growth and development and skills enhancement. HR 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. In addition, NIE Networks is currently engaged in a full review of all policies and procedures to ensure they are fully inclusive.

Although having returned to face-to-face delivery for a number of our training and development programmes, we have also successfully continued to offer shorter workshop sessions digitally. These have all been received positively and using this form of delivery has increased the number of employees having the opportunity to receive training. We continue to support a high percentage of employees through our training and development initiatives which included leadership skills programmes, support programmes for formal qualifications, role enhancement, role changes, team development initiatives, coaching and mentoring.

NIE Networks continues to promote the professional development of engineers through the Institution of Engineering and Technology (IET) Professional Registration Scheme and encourages and supports more employees to become IET members and Chartered Engineers.

Equality and Diversity

NIE Networks is proactive in implementing and reviewing Human Resource policies and procedures to ensure they are fully inclusive and compliant with all relevant legislation. NIE Networks is committed to providing equality of opportunity for all employees and job applicants with ongoing monitoring to ensure that equality of opportunity is provided in all our employment practices. Extensive outreach initiatives are used to actively seek female applications in male dominated job roles. NIE Networks successfully retained the Bronze Diversity Charter Mark during 2022, in recognition of the many initiatives in place in the business to support gender diversity. In early 2023, NIE Networks was awarded the Silver Diversity Charter Mark following the successful implementation of an action plan which focused on developing a more inclusive workplace for those with disabilities and those from a broader range of ethnic/cultural backgrounds. In 2022, we formed our Diversity & Inclusion Forum which meets on a quarterly basis. Employees from across the organisation were asked to register their interest to be part of this new initiative which will support employee engagement and organisational growth.

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 extensive health and wellbeing policy is in place covering areas such as stress management, mental health, alcohol and drug-related problems and support to stop smoking. External occupational health and counselling services are available for all employees.

The Health and Wellbeing Forum and champions across the business rolled out various initiatives during the year to provide additional guidance and support to enable employees to proactively manage their own health and wellbeing. A key aspect of the Health & Wellbeing focus this year has been mental health. To date, we have successfully trained 82 Mental Health First Aiders and offered Mental Health Awareness training to the wider organisation. Sickness absence during the year was 3.4%, a decrease of 0.1% from the previous year.

Employee Engagement

Employee engagement has remained a key priority throughout 2022. NIE Networks places considerable emphasis on its employee participation and engagement processes which are well embedded in the Company's culture. Alongside extensive engagement with the whole organisation through the Safer Together Programme workshops, the Employee Engagement Board, chaired by the Executive Director, People & Culture, continued to meet bi-monthly. Throughout the year representatives rotated roles, taking on the role as Chair or Vice Chair of the local engagement groups which operate at each main staff location ensuring local discussion and information sharing. In addition, members of the Board attended a number of the meetings. Initial meetings in 2022 were online moving to in-person meetings later in the year. Key areas of engagement continued to focus on the Safer Together Programme, Employer of Choice, Diversity & Inclusion and Industrial Voice. Through this process, matters are identified for improvement and followed through either by management or with employees via a wide variety of participative working groups.

Separate company-wide working groups and forums focus on specific issues/problems or ideas generation, including Health & Wellbeing, Digital Strategy, Innovation and Pensions to drive improvements for both the business and employees. As a large proportion of the workforce are field based and working on the network across NI, meetings take place regularly at depots to ensure that all of these employees have an opportunity to raise issues directly with management. A similar structure will be introduced for Engineering and Administration employees during 2023 and will be led by the Learning and Culture Manager.

The 2050 Forum was formed in 2022 as a Sub-Committee of the NIE Networks Employee Engagement Board. Representatives were nominated from each directorate to ensure broad representation on the committee. This is a new initiative designed to focus on the future and explore the journey toward 2050 and capture what type of place NIE Networks may be to work in then.

Two separate Employee Relations Forums, comprising management and the relevant trade union representatives, continued to meet to progress a wide range of employee relations matters. More formal negotiating committees, chaired by the Executive Director, People & Culture are held regularly and are attended by management, the respective full-time union official and trade union representatives to discuss more complex issues including terms and conditions and pay. The Executive Committee holds workshops with the senior management group of around 55 managers at least biannually to consider performance, new developments and wider plans.

The formal monthly employee briefing process is a key process to ensure that all employees are kept up to date on matters of interest to them, both as employees and on Company developments generally. All employees can attend a session with line management at their local workplace or virtually, and can also access the material via the Company's intranet. In addition, a weekly communications bulletin is issued to employees. In 2022, a face-to-face, formal induction meeting took place attended by the Managing Director and other members of the Executive Committee team who met and presented to our new employees. Awards were also held in 2022 for those with long service & full attendance and the Company Apprentice & Achievement awards were also celebrated. Overall 500 employees attended these events.

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

Work Experience and Educational Outreach

NIE Networks is conscious of the ongoing need to encourage and develop tomorrow's workforce. By its nature, power engineering is highly skilled and specialist and requires many years of training. Fewer students are choosing science and technology subjects at GCSE and 'A' level. As a result, with an increasing demand for these skills, the potential supply-demand mismatch means the electricity industry faces a significant skills shortage now and 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:

- linking with over 60 schools across NI, further educational colleges and the two local universities to promote opportunities by studying Science, Technology, Engineering and Maths (STEM) subjects;
- providing Engineering scholarships at Queen's University Belfast (QUB) and Ulster University (UU) sponsoring Electrical and Electronic Engineering, Computer Engineering, Energy & Renewable Energy students through their studies as part of the Institute of Engineering and Technology Power Academy Council;
- providing work experience for A-Level students including involvement in research and development work within engineering;
- providing other internship opportunities;
- providing industrial placement opportunities for undergraduates;
- supporting the first Lego League Challenge and Explore programmes, a global robotics programme for primary and secondary schools;
- providing mentoring services to school children participating in 'Sentinus Team R&D';
- sponsorship of the QUB Science laboratory and QUB Young Female in STEM Network; and
- participation in the 4Cur Future initiative and Schools Summit careers events.

Community Initiatives

NIE Networks continues to be a member of Business in the Community (BiTC) supporting many of their local projects and initiatives.

During 2021/22, employees raised over £25,000 for Public Initiative for Prevention of Suicide (PIPS) as NIE Networks' charity of the year, nominated by employees through the engagement process. NIE Networks and its employees have recently commenced fundraising for this year's charity of the year, B Positive.

Charitable giving by employees is promoted through the Staff and Pensioners' Charity Fund, to which the Company contributed £10,000 during the year. In 2022, the Charity Fund donated £20,000 to local charities.

Through other partnerships with RSPB & Ulster Wildlife employees have volunteered their time to support a number of local environmental initiatives.

Looking Forward

Key priorities for 2023 for NIE Networks include:

- continue on the Safer Together journey with emphasis on culture and a more people-centred approach to Safety;
- ensure effective employee engagement at all levels to support a positive culture and embed the Employer of Choice strategy with a focus on resourcing, retention and recruitment;
- implement the Sustainability Action Plan, including European Distribution System Operators (E.DSO) commitments, Race to Zero targets and the development and implementation of ESG strategy;
- ongoing focus on business performance and delivery against RP6 price control allowances and outputs while maintaining a safe and secure network;
- develop a robust Business Plan and RP7 Price Control submission to meet societal, customer and business needs to 2031 and engage with the Utility Regulator in advance of the Draft Determination;
- continue to engage and influence on energy policy issues to support decarbonisation and electrification, as well as delivering deployment of low carbon technology solutions including the Green Recovery programme;
- develop and deliver the 2023 Customer Service Action Plan to enhance customer service and ensure we provide an efficient and effective Connections service to meet customer needs and support new technologies;
- delivery of the Company's digital strategy, including digital transformation projects; and
- continue to engage effectively to ensure we understand and can meet stakeholder needs.

Stakeholder Engagement and Section 172(1) statement

As set out in Section 172 of the Companies Act 2006, the directors of the Company have a duty to promote the success of the Company for the benefit of its members as a whole, and in doing so, must have regard to the needs of the Company's stakeholders and other matters described in Section 172(1) (a) to (f). This section describes how the directors have had regard to these matters when performing this duty and forms the directors' statement required under the Companies (Miscellaneous Reporting) Regulations 2018. The section includes how the directors have had regard to employee interests and to the need to foster business relationships with suppliers, customers and other key stakeholders and the effect of that regard including on the principal decisions taken during the year.

Strategy and long-term decision making

The Board promotes the success of the business by delivering customer focused performance in a manner that is environmentally sustainable, provides long-term stability and meets the needs of its key stakeholders.

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

In October 2022, the Board approved the issue of a £350m sterling bond by NIE Finance PLC, guaranteed by the Company, to provide the financing required to enable delivery of future investment in line with the RP6 programme of work.

Throughout 2022 the Board focused on NIE Networks' strategy to address the long-term societal challenge of transforming the energy system to achieve net-zero carbon by 2050, aligned to the Company's Networks for Net Zero strategy to facilitate increased renewables on the network and enable the increasing uptake of low carbon technologies. Overseen by the Board, these strategies formed the basis of the Company's proposals to the UR for the one-year extension to the RP6 price control and will underpin the business plan for the next price control period (RP7) due to commence in April 2025. This needs to be a truly transformational plan in order to meet the NI Executive's Energy Strategy for NI to 2030 and deliver to the legal commitments outlined in the June 2022 Climate Act for NI.

Under the Board's leadership, NIE Networks' objectives in RP7 will be to meet the increasing needs of our customers and enhance the services we provide, develop and shape the network to facilitate a net zero future while maintaining adequate focus on our core responsibility of maintaining a safe and resilient network, and developing our systems, processes and organisational capability to deliver key future requirements including digitalisation and ongoing transition to a Distribution System Operator. Recognising the importance of the RP7 price control and the step change needed in respect of the network investment plan, the Board increased the membership of the Executive Committee during the year with the appointment of a Network Investment Director creating capacity to focus on this key component of the business plan. The Board will continue to oversee the development of the RP7 Business Plan with its submission due to the UR in March 2023. During the year the Company Secretary role also became a member of the Executive Committee given her significant role as a key advisor to the Board.

Reputation for high standards of business conduct

The Board is committed to maintaining high standards of corporate governance and business conduct. The Board applies the Corporate Governance Principles for Large Private Companies (Wates Principles) as set out in the Board's Governance Report on page 32. This explains how the Board has established the Vision, Values and Behaviours to reflect the needs of NIE Networks' stakeholders; takes responsibility for all aspects of the business over the long-term; has the skills and experience to make decisions that address customer and stakeholder needs.

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

Employee Interests

NIE Networks' people are its greatest assets and the directors are committed to ensuring that employee interests are taken into consideration while promoting the success of the Company.

Improving the health, safety and wellbeing of employees is the number one value at the core of NIE Networks' business operations, with the aim to provide a zero-harm working environment. It is the first matter considered by the Board at each meeting, including information on, and learning from, safety incidents and the sharing of 'near misses' and performance against leading and lagging indicators. At each meeting the Board discussed progress made by a number of working groups established to focus on implementing the safety improvement plan "Safer Together – our pathway to zero harm", endorsed by the Board in November 2020 as an enabling plan to improve adherence to the Safety value, reduce the risk of harm and improve the wellbeing of employees. The Board considered the proposed long-term Safer Together programme during the first half of 2022, seeking an independent expert report on progress made against the plan, alongside reassigning safety responsibilities to reside within the People & Culture directorate with an emphasis on culture and taking a people-centred approach to safety. In the latter part of 2022, the Board gave further consideration to the next stages of the programme and the Company's plans for safety culture in 2023.

During 2022, the Company introduced an Agile Working Policy following engagement with employees, with the policy aimed at offering flexibility to employees in suitable roles and in acknowledgement of the future of home working within industry and wider society. The Company completed the refurbishment of its Dargan office in Belfast during the year offering staff a modern space in which to do business. The Board approved the lease of office premises at Danesfort in Belfast during the year and the Company commenced plans to amalgamate staff at the site with staff

from two previously leased premises in Belfast relocating to Danesfort following its major refurbishment at the end of 2022, with plans for staff from two further offices to relocate in 2023.

NIE Networks depends on highly trained, skilled and engaged employees to achieve its objectives. The Executive Director, People & Culture, an executive director of the Board, oversees the development and implementation of NIE Networks' HR strategies which are considered regularly by the Board. The Board considered recruitment and retention challenges faced by the Company during the year and received updates on succession planning and efforts made by the Company to attract talent in a highly competitive recruitment market which persisted in 2022. The Board considered developments to ensure greater equality, diversity and inclusion in NIE Networks, approving a new Equality, Diversity & Inclusion Charter and Gender Statement for the Company in 2022. The Board endorsed specific initiatives to drive a positive gender balance and promote a positive and inclusive workplace, supporting the Company's plans to aim to achieve Sliver Charter Mark Diversity accreditation.

The directors continue to seek to protect the resilience of the business, now and in the future, by developing and retaining a highly skilled workforce and seeking to attract new employees into the business with over 190 new employees joining the company during 2022. The new jobs, including apprenticeship and graduate opportunities as well as experienced engineers, analysts and others will develop the workforce to enable NIE Networks to invest in the enhancement of the electricity network to help tackle climate change and boost economic recovery. As part of the recruitment drive, the directors have also focused on increasing the skills needed by the clean energy sector in the coming years and, in conjunction with DfE, will provide world class development and deliver traineeships and apprenticeships through its apprenticeship programme and training centre. The Board welcomed the increase in the number of apprenticeships offered by the Company during the year to include higher-level apprenticeships in various support functions across the business.

While most employees are members of the Northern Ireland Electricity Pension Scheme's defined contribution scheme, there are over 4,000 members or pensioners in the defined benefit scheme. The Board received regular updates during the year on the progress made with the Scheme's trustees on the triennial valuation, undertaken as at 31 March 2022 to ensure that employer contributions match the funding requirements of the defined benefit scheme. The Board confirmed its acceptance of the actuarial valuation and schedule of contributions in December 2022.

Further information can be found on pages 17-20 and 36-37.

Impact on the Community

NIE Networks makes a positive impact on the communities in which it operates through the delivery of its day-to-day services.

At each meeting the Board considered how NIE Networks ensures the safety of the general public in its operations and considered initiatives taken under the public safety campaign, approved by the Board, in raising the public's awareness of the dangers of the electricity network.

The Board previously approved a three-year Vulnerable Customer Strategy from 2021 setting out how services will be increased for those customers needing extra support, such as customers with communication barriers, translation requirements, the elderly, visually impaired or those reliant on life saving medical equipment or technologies to support independent living. The strategy was supported by an advertising and communications campaign to ensure those eligible for specific assistance are made aware of what is available. In 2022, awareness campaigns included television advertisements aired during prime time viewing, promotion of the Medical Customer Care Register via billboard advertisements, implementation of the Relay UK service and working with SignLive in the customer contact centre to assist the interaction with deaf and speech impaired customers.

The Board approved a Customer Service Action Plan in 2022 agreeing the key initiatives and measures to be implemented during the year to continue to improve the level of service to customers with these initiatives and measures set in line with the customer objectives and commitments in the RP6 Business Plan. The plan reinforces the key behaviours of being responsive, professional, accountable and helpful as the Company strives to put the customer at the heart of everything it does. Reviewing performance against the plan, the Board monitored continuity in electricity supply to all customers and efforts made to minimise the time customers were off supply due to faults in the distribution network or planned outages for network maintenance or refurbishment. The Board considered the Company's preparedness to respond to severe weather events and customers' ability to report faults and keep updated on repairs. In addition, the Board supported the Company in its preparations alongside SONI, the transmission operator, DfE and other government bodies for addressing any deficits in electricity supply were such an event to be notified by SONI in the future.

In the final quarter of the year, the Board encouraged the Company to continue to assist the DfE, working alongside the UR and electricity supply companies, who sought to administer financial assistance to domestic customers and businesses to ease the burden of escalating energy prices and the cost of living crisis.

Further information can be found on pages 10-20

Impact on the Environment

The Board recognises NIE Networks' responsibility to operate in a way that minimises the impact on the environment and considered the annual environmental plan to ensure this. The Board sets and, at each meeting, monitors environmental impact against targets including reduction in environmental incidents, oil leaks from equipment and recycling.

During 2022 the Board approved the amalgamation of the Sustainability and Environment functions to better deliver these elements of the "Networks for Net Zero" strategy and to develop an Environmental Action Plan for RP7. This is part of the organisational underpinning required to create a sustainable energy system for the future, aligned to the Company's vision and strategy, and addressing DfE's Energy Strategy for NI, to which the Company had input in 2021.

As part of the industry-wide commitment to net zero, the Board committed to the United Nations Framework Convention on Climate Change's (UNFCCC) "Race to Zero" campaign setting an interim target of 50% reduction in business carbon emissions by 2030, against the 2019 baseline, with a view of delivering net zero by 2050 or sooner and to setting a science-based target for reducing its business carbon footprint. The Board supported the Company in submission of its Letter of Commitment to the SBTi in May 2022 which was subsequently assessed and accepted by the SBTi.

In delivering against its commitments, in 2022 the Company introduced a number of electric vehicles to its fleet, installed charge points at depots and some home locations of fleet vehicle drivers, completed refurbishment of its Dargan office reducing electricity and gas consumption and piloted a company car electric vehicle scheme. The Company commenced a smart metering pilot, installing 900 smart meters in domestic premises in NI in 2022 to gather information on the technology and data and gauge customer feedback in preparation for any potential introduction of smart metering in NI in the future to empower customers in the efficient consumption of electricity.

The Board considered initial proposals for an ESG strategy for NIE Networks including aspects of performance and reporting, with the potential to voluntarily adopt Task force on Climate-related Financial Disclosure (TCFD) as a baseline against which to report. The Board will provide further leadership in 2023 as it develops an ESG strategy for NIE Networks.

Further information can be found on pages 16-17.

Stakeholder Engagement

Customers

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

In addition to monitoring performance against the Board-approved 2022 Customer Service Action Plan, the Board considered performance against Guaranteed and Overall standards during the year. Noting the high number of defaults against Guaranteed standards in the year owing largely to an increase in the complexity and time required for new connections, the Board endorsed management's plans to review processes and procedures and implement changes in readiness for a continued increase in demand as customers seek to install low carbon technologies. The Board acknowledged the impact of the pandemic and difficulties faced by meter readers gaining access to customer premises to read meters resulting in default against one Overall standard of performance during 2022 despite the mitigating measures implemented.

The Board received regular updates on ongoing engagement with customer representatives who provide feedback on NIE Networks' performance during RP6 with this work overseen by the CEAP comprising the UR, CCNI, DfE and NIE Networks. The Board received the results of a survey undertaken by Reputation Inc, commissioned by the Company to gauge performance against the Company's RP6 stakeholder engagement strategy, with stakeholders validating strong levels of performance to date in RP6. In 2022, the Board focused on key engagement with

customers on the priorities for RP7 launching a consultation on the Company's RP7 Business Plan in October with ongoing consideration given to feedback received following closure of the consultation in November.

The Board ensures that there is a high level of engagement with customers seeking connections to the electricity network with the Company participating in a number of working groups including the Connections Innovation Working Group. In addition, meetings are held with providers of electricity infrastructure to progress appropriate solutions which facilitate the connection of further Distributed Energy Resources (DER) in Northern Ireland such as charge point operators and renewable generators. Sponsorship of the NI Chamber of Commerce Regional Networking series and Chambers Skills series in 2022 provided opportunities for engagement with business customers across NI as well as the continued sponsorship of events with the Construction Employers Federation, Confederation of British Industry and the Institute of Directors, enabling engagement with a range of business customers.

Further information can be found on pages 12-14.

Suppliers

The Board recognises the key role suppliers play in ensuring NIE Networks delivers a reliable service to customers: in supplying materials for the network, working on the network as contractors and the provision of essential managed services to the business and encourages active engagement with those suppliers. NIE Networks has continued to work closely with material suppliers to ensure additional stocks of key items to mitigate against potential shortages and potential supply chain disruptions arising from the global recovery following the Covid-19 pandemic, and the war in Ukraine.

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

The Board monitored the arrangements in place to prevent modern slavery in supply chains and approved the annual statement on the prevention of modern slavery in NIE Networks.

Regulators

In addition to customers, employees, and suppliers, the Board has identified a number of other key stakeholders. The UR has regulatory oversight of NIE Networks and there are well established formal channels of engagement with the UR at various levels within NIE Networks, overseen by the Managing Director and Finance & Regulation Director, who report on key regulatory issues to each Board meeting, with the Compliance Manager also reporting directly to the Board. All key communications and engagement with the UR are discussed at Board meetings and, in addition, the Board had discussions with the UR Board via sub-committee representatives for each board in 2022 on key strategic regulatory issues.

The DfE has regulatory powers and sets energy policy. Together with senior executives from the UR and SONI, the Managing Director participates in the DfE's Electricity Stakeholders Group, providing input and support to the electricity aspects of the DfE's action plan following publication of its Energy Strategy for Northern Ireland in 2022, with the Board being kept updated on progress throughout the year.

There was continued engagement with the UR and DfE in early 2022 on NIE Networks' proposals for Green Economic Recovery submitted to the UR in April following Board approval. The Company engaged with DfE and its advisers, KPMG, appointed by DfE to undertake a Cost Benefit Analysis study of smart metering for NI in addition to liaising with DfE, the UR and supply companies who sought to administer financial assistance to electricity customers amidst the energy price and cost of living crisis.

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

Similarly, the Northern Ireland Environment Agency (NIEA) is a key stakeholder with the Board receiving a report to each meeting on any environmental incidents including any matters reported to the NIEA.

Other key stakeholders

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

Throughout 2022 the directors engaged with relevant Northern Ireland Executive Ministers, Permanent Secretaries, their departments and Assembly Committees on actions required to achieve the energy targets outlined in the government's Energy Strategy and Climate Act for NI as well as updating these stakeholders on the Company's proposals for RP7.

The renewables future of Northern Ireland is dependent on good partnership and collaboration with regulators, industry participants, customers and other stakeholders. NIE Networks continued to work closely with all these stakeholders who together will contribute to meeting the Climate Change Act target of at least 80% of electricity consumption coming from renewable sources by 2030.

Together with other members of the Executive Committee, the Managing Director is closely engaged with senior executives of SONI, the Transmission System Operator, on both operational matters, strategic transmission investments including the North-South Interconnector and the pathways to achieve net zero.

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

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

The Board has endorsed an external stakeholder engagement strategy. The Managing Director led the implementation of the strategy and the Board considered regular updates on progress including performance against KPIs in relation to reputation, brand perception and overall satisfaction based on independent survey results and key current engagements.

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

Further information on stakeholder relations and engagement can be found on pages 36-37.

Risk Management

Principal Risks and Uncertainties

During 2022, NIE Networks identified the following two new principal risks:

- Failure to deliver the growing and increasingly complex network infrastructures and systems to meet future customer and societal needs of accommodating more renewables and supporting wholesale electrification; and
- Challenges and Risks associated with the current economic climate including the cost of living crisis.

The Covid-19 risk which previously included challenges and risks associated with the Covid-19 pandemic and its impacts, is no longer considered a principal risk for NIE Networks.

NIE Networks' other principal risks remained consistent between 2021 and 2022, although with some movement on the risk profile for specific risks in the year 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	
<p>Health & safety: Exposure of employees, contractors and the general public to risk of injury or harm.</p>	<p>Planned delivery of the 'Safer Together' safety improvement plan.</p> <p>A comprehensive annual Health, Safety and Wellbeing business plan approved annually by the NIE Networks Board which sets out detailed targets for the management of health and safety. These targets are continually monitored as part of the Group's ISO 45001 standard safety management framework.</p> <p>Comprehensive safety rules, policies, procedures and guidance reviewed and communicated regularly and compliance monitored on an ongoing basis.</p> <p>A strong focus on the inspection of work sites and the reporting, reviewing and communication of near miss incidents.</p> <p>Ongoing programmes to increase public awareness of the risks and dangers associated with electricity equipment.</p> <p>Ongoing engagement with GB Distribution Network Operators through the ENA in order to share best practice and learning.</p>
REGULATORY RISKS	
<p>Licence compliance: Failure to comply with regulatory licence obligations.</p>	<p>NIE Networks has a dedicated Compliance Manager to monitor compliance with all regulatory licence obligations and to report to the Utility Regulator on regulatory matters.</p> <p>Ongoing programme of education for key staff on regulatory and compliance requirements.</p> <p>Regular engagement with regulatory stakeholders on key matters.</p>

Risk & Risk Description	Mitigating Strategies
FINANCIAL RISKS	
<p>Funding & liquidity: Inability to secure adequate funding at appropriate cost for planned investments in the event that NIE Networks' credit metrics were not maintained within Credit Rating Agency investment grade targets.</p> <p>Exposure to financial counterparty risk.</p>	<p>NIE Networks employs a continuous forecasting and monitoring process to ensure adequate funding is secured on a timely basis.</p> <p>The Group sets its financial plans cognisant of the requirement to ensure adequate funding for its activities and to maintain an investment grade credit rating with rating agencies.</p> <p>The Group reviews funding requirements on a regular basis, including ensuring access to a sufficient Revolving Credit Facility from its parent.</p> <p>Credit risk in respect of receivables from licensed electricity suppliers is mitigated by appropriate policies with security received in the form of cash deposits, letters of credit or parent company guarantees.</p> <p>NIE Networks conducts business only with Board approved counterparties which meet the criteria outlined in the Group's treasury policy.</p> <p>The Group's treasury policy and procedures are reviewed, revised and approved by the Board as appropriate.</p>
<p>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.</p>	<p>"Focus" has been closed to new entrants since 1998. Since 1998 new members have joined the money purchase section of the NIEPS ("Options").</p> <p>The NIEPS Trustees employ professional advisers in the management of the Scheme's assets and liabilities. NIE Networks engages with the NIEPS Trustees on a regular basis and has its own professional independent advisers, separate to the Trustees' advisers, to review any changes in relation to the operation or funding of the Scheme.</p> <p>The Scheme's investment strategy and hedging strategy are reviewed on a regular basis to ensure they remain appropriate to the investment climate.</p> <p>The deficit repair plan was updated in 2022 following the conclusion of the latest triennial review of the deficit as at 31 March 2022. The deficit repair plan will be reviewed in line with the next triennial review of the deficit which is due to take place as at 31 March 2025.</p>
MARKET RISKS	
<p>Customer service: Failure to meet standards for customer service resulting in damage to reputation.</p>	<p>Stretching customer service standards are approved by the NIE Networks Board. Performance against these standards is monitored and reported on a monthly basis.</p>
<p>Connections market share: Risk of reduced income arising from either a reduced market and/or market share arising from contestability in connections.</p>	<p>NIE Networks continuously reviews and analyses connection charges to ensure delivery of value for customers. The Group also actively forecasts market movements to establish the likely impact on the connections business.</p>

Risk & Risk Description	Mitigating Strategies
OPERATIONAL RISKS	
<p>Networks infrastructure failure: Critical Infrastructure failure including damage to assets and disruption to operations.</p>	<p>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.</p> <p>The network is strengthened through appropriate investment, a reliability-centred approach to maintenance and a systematic overhead line refurbishment and tree cutting programme. NIE Networks' strategy is to continue to maintain and develop a safe and secure network to meet market demands.</p>
<p>Emergency response: Failing to respond adequately following damage to the electricity network from adverse weather conditions.</p>	<p>System risk assessments are completed regularly and weather forecasts actively monitored daily.</p> <p>There is a comprehensive Emergency Plan and Storm Action Plan in place, each reviewed and tested regularly with emergency simulations carried out at least annually. Duty Incident Teams provide cover 365 days per year with arrangements in place for access to external utility resources if required.</p>
<p>Network investment: Failure to deliver the growing and increasingly complex network infrastructures and systems to meet future customer and societal needs of accommodating more renewables and supporting wholesale electrification</p>	<p>NIE Networks is developing a business plan for the next Regulatory Price Control period (<i>RP7</i>) for 2025 to 2031, which will be a critical period on the pathway to achieving net zero carbon by 2050. Our aim is to strike a balanced position in our plan to maximise the potential benefits from investment in the electricity network and the electrification of society, without adding to the financial hardship many of our customers are facing.</p> <p>NIE Networks' draft <i>RP7</i> business plan was issued for public consultation in October 2022. Customer feedback from the consultation was used to inform the development of our final proposals for <i>RP7</i>, which are due for submission to the Utility Regulator by 31 March 2023.</p>
<p>Data loss: Loss of data integrity or breach of Data Protection Act.</p>	<p>The Group's Data Protection Officer, supported by a Data Protection Forum, implements and monitors compliance with data protection policy and procedures.</p> <p>Governance structures are in place throughout the business to ensure compliance with the Data Protection Act 2018.</p> <p>Ongoing data protection training for all staff.</p>

Risk & Risk Description	Mitigating Strategies
OPERATIONAL RISKS (continued)	
<p>System outage / Cyber-attack: Extended outage of critical information technology (IT) / Operational Technology (OT) systems arising from non-malicious infrastructure failures or successful cyberattacks.</p>	<p>Continuous monitoring of NIE Networks' cyber environment.</p> <p>Regular review of IT systems and their resilience is carried out by the IT team and its professional advisers.</p> <p>Suite of IT policies/procedures in line with best industry standards.</p> <p>NIE Networks is engaged in an ongoing programme of review and upgrade of IT software and hardware with IT partners.</p> <p>There is a comprehensive process in place through the Company's Managed Service Provider to carry out monitoring of technical performance and reliability of key systems.</p> <p>Disaster Recovery and failover arrangements are documented and tested regularly.</p> <p>Cyber policies, strategy and governance model in place.</p> <p>Cyber Security awareness and training across the organisation.</p> <p>Governance structures are in place to ensure ongoing compliance with the Network and Information Systems Directive.</p>
RESOURCING AND CAPABILITY RISKS	
<p>Knowledge, skills and succession management: Inadequate resources with the necessary knowledge and skills.</p> <p>Failure to develop and retain staff.</p>	<p>NIE Networks' strategy is to be an Employer of Choice so that we are best placed to attract, develop and retain the knowledge and skills required to meet NIE Networks' regulatory obligations. We will recruit and develop people through our graduate, extended apprenticeship, trainee and sponsorship programmes alongside ensuring that our overall recruitment methods are accessible and easy to navigate and overall benefits are competitive.</p> <p>Organisational development is a key priority for the Group with continued investment in staff training, skills development and on-going performance improvement. Focused employee development programmes are in place to maximise the potential of staff and ensure adequate succession planning.</p>
ECONOMIC RISK	
<p>Current economic climate: Challenges and risks associated with the current economic climate and cost of living crisis</p>	<p>NIE Networks' draft RP7 Business Plan was issued for public consultation in October 2022. Customer feedback from the consultation was used to inform the development of NIE Networks' final proposals for RP7, which are due for submission to the Utility Regulator by 31 March 2023.</p> <p>NIE Networks provided data and assistance in support of the Department for the Economy's Energy Support Schemes.</p>

Risk & Risk Description	Mitigating Strategies
CLIMATE ACTION	
<p>Response to climate change: Inadequate response to challenges and failure to capture opportunities presented by the climate emergency and our subsequent action (mitigation and adaptation) to address climate change policy measures along with growing public, customer and other stakeholder concerns.</p>	<p>A series of overarching policy and strategy measures are in place to mitigate the risks associated with climate change including the Company's Sustainability Policy, Sustainability Action Plan and United Nations Framework Convention on Climate Change (UNFCCC) Race to Zero commitments.</p> <p>Extensive and continued involvement with a range of stakeholders in relation to delivery of DfE's Energy Strategy and passing of a climate change bill for NI that provides clear objectives and targets.</p> <p>The RP7 Business Plan is being developed in line with requirements to facilitate decarbonisation of energy system.</p>
<p>Financial Risk: Potential changes in Northern Ireland's energy policy and strategy may impact on the carrying values or useful economic lives of existing infrastructure assets.</p> <p>Increasing network repair costs as a result of greater frequency and severity of storms due to the impact of climate change.</p>	<p>The majority of NIE Networks' infrastructure assets are considered to be enduring assets which will be important to implementing decarbonisation targets. While some limited elements of the asset base may have to be upgraded, the majority of assets will be augmented by further investment rather than causing any significant impairment of existing assets.</p> <p>NIE Networks considers the implications of known or potential changes in industry regulations when assessing the useful economic lives of assets.</p> <p>NIE Networks continuously monitors costs incurred as a result of storm damage. The impact of changes in network performance and reliability brought about by the impact of climate change forms a key part of NIE Networks' continuous forecasting of costs which will inform the RP7 Price Control submission.</p>

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.

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 responses are well managed and executed. The exercising and testing of these plans are key actions in ensuring NIE Networks' preparedness for a business continuity event.

On behalf of the Board

Derek Hynes
Managing Director

Northern Ireland Electricity Networks Limited
Registered Office:
120 Malone Road
Belfast BT9 5HT
Registered Number: NI026041
Date: 28 March 2023

BOARD OF DIRECTORS



DAME ROTH JOHNSTON DBE was appointed as independent non-executive Chair of the Board in March 2020, having been an independent non-executive director since from 2011. She is Chair of the Northern Ireland Productivity Forum, and a director of QUBIS Ltd, Ulster Garden Villages Ltd, Advertising Standards Authority Limited and Advertising Standards (Broadcast) Limited. During 2022 she was appointed by the Economy Minister to take part in an independent review of Invest NI. In the past she has been Chair of Northern Ireland Screen, a BBC Trustee for Northern Ireland, Pro-Chancellor at Queen's University Belfast, a Belfast Harbour Commissioner and a member of KPMG's Northern Ireland Advisory Board. In 2016 she was awarded Dame Commander of the Order of the British Empire for services to the Northern Ireland economy and public service.



KEITH JESS was appointed as an independent non-executive director in September 2019 and as Chair of the Audit & Risk Committee in March 2020. He is a member of the Senate of Queen's University Belfast and chairs the Audit Committee and is a non-executive director and Chair of The Progressive Building Society. His executive career was primarily at Ernst & Young (EY) (and its predecessor entities) based in its Belfast office, where he was Audit Partner from 1990 to 2017. He was Engagement Partner for EY on the audit of a number of companies within the energy sector in Northern Ireland and a range of other large industrial and commercial clients. He is a Fellow of the Institute of Chartered Accountants in Ireland.



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



DEREK HYNES, Managing Director, was appointed to the Board on 1 September 2022. He is a director of Energy Networks Association Ltd, Centre for Competitiveness, Smart Grid Ireland and E.DSO (European Distribution System Operators). He joined ESB in 2000 where he held a number of senior management positions, mostly within ESB Networks DAC, the independent ring-fenced subsidiary within ESB Group, including as Head of Project Delivery and Network Operations Manager. He was also Residential Ireland Manager of Electric Ireland, a retail business within ESB. He is a chartered engineer with postgraduate qualifications in Operations Management and Corporate Governance and he has completed the Advanced Management Programme at Harvard University.



GORDON PARKES, Executive Director - People & Culture, was appointed to the Board in May 2019. He has over 40 years' experience in Human Resources across several organisations and sectors and has been HR Director of NIE Networks since 2000. He is a Board Member of the Board of Trustees of the Grand Opera House Trust and of the Royal Belfast Academical Institution. He has been a Board member at the Labour Relations Agency and a member of the CBI Employment and Skills Committee. Since 2013 he has been a Chartered Fellow of the Chartered Institute of Personnel and Development (CIPD) and, in 2019, was awarded Chartered Companion status by the CIPD Board. He holds a Masters in Business Administration and is a member of the Institute of Directors.

GROUP DIRECTORS' REPORT

The directors present their report and audited consolidated financial statements for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (together, the Group) for the year ended 31 December 2022.

Results and Dividends

The results for the year ended 31 December 2022 show a profit after tax of £57.3m (2021 - £39.4m). During the year the Company paid a dividend of £36.6m (2021 - £39.4m). The business and financial review, together with future business developments, are provided in the Group Strategic Report and included in this report by cross reference. No additional dividends are proposed up to the date of signing of the financial statements.

Corporate Governance

The Board's Governance Report

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

In January 2019, NIE Networks adopted the Corporate Governance Principles for Large Private Companies issued by the Financial Reporting Council (FRC) in December 2018 (or 'The Wates Principles'). These have been applied throughout the year ended 31 December 2022 as described below.

Purpose and Leadership

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

In 2020 the Board approved NIE Networks' Vision of "Delivering a Sustainable Energy System for All", setting the specific goal NIE Networks aspires to in the future and providing direction for the Company within the changing external landscape in which it operates, and endorsed redefined and simplified Company Values of being Safety-, People-, Customer-, Commercially- and Future-focused. NIE Networks' purpose and Vision is aligned with ESB Group's Purpose Statement. In 2021 the Board approved the behaviours required to align with the Values and Vision - as being Courageous, Accountable, Respectful and Empathetic ("We CARE"), providing direction and motivation to employees, to those working on our behalf, such as contractors, and external stakeholders in relation to our future purpose and on the principles, beliefs, and standards guiding both employees' and management's actions as the Company moves forward.

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

In line with NIE Networks' Purpose and Vision, the Board considers long-term developments for the energy system, principally the need to decarbonise it before 2050, recognising that major change will be required to facilitate the growth of low carbon technologies connecting to the network which will impact how the network is managed and operated. The Board has been considering and planning for these long-term developments for the Company, providing challenge and guidance to management. Specifically, during 2022, the Board provided oversight and challenge in respect of the Company's preparation for, and approach to, the one-year price control extension for RP6 and the six-year price control period, RP7, due to commence in April 2025 which will determine NIE Networks' course to March 2031 and is critical to helping deliver a net zero energy system in Northern Ireland.

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

Culture is the combination of values, attitudes and behaviours manifested by the people who work for, and with, the Company in its operation and relationship with stakeholders. In 2022, the Board approved a wider remit for the role of the Human Resources (HR) Director, repositioning the role to that of Executive Director, People & Culture emphasising the importance of culture to the organisation. Throughout the year, the Board continued to monitor the culture within NIE Networks by receiving information on safety incidents and the level of near miss sharing, absenteeism, employee turnover, internal control weaknesses and employee engagement, in addition to directly engaging with employees and considering stakeholder and customer engagement surveys.

The Board ensures that there are well embedded arrangements for engagement with employees on NIE Networks' purpose, strategy and business activities and on the behaviours expected of all employees to underpin the Company's values and culture. These engagements include a weekly internal communication email, monthly briefings, video messages from the Managing Director, Employee Engagement Board and local meetings, effective engagement with trade unions, as well as a comprehensive messaging handbook available to all employees. Non-executive directors (NEDs) attended engagement sessions with employees during the year.

Board Composition

The NIE Networks Board comprises a majority of independent NEDs, with three independent NEDs and two executive directors. Dame Rotha Johnston DBE chairs the Board with Alan Bryce and Keith Jess the Board's other independent NEDs. Derek Hynes and Gordon Parkes are executive directors on the Board. Derek replaced Paul Stapleton as Managing Director from 1 September 2022 and Gordon is Executive Director, People & Culture.

The NEDs bring diverse experience, independence and challenge to support effective decision-making. The range of Board members' experience in: the electricity industry; business and finance; accounting and auditing; human resources; serving on other Boards and Audit Committees; and in NIE Networks' operations is set out in their biographies on page 31. The Board is confident that all its members have the knowledge, ability, experience and commitment to perform the functions required of them.

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

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

The Board conducts an annual evaluation of its own performance, and that of the Audit & Risk Committee, in order to identify ways to improve effectiveness. Following the external evaluation in 2021 conducted by Simon Osborne FCG of the Chartered Governance Institute Board Evaluation, the Board agreed a number of actions to enhance performance in late 2021. The review of effectiveness in 2022 focused on implementation of these actions and progress made during the year.

Director Responsibilities

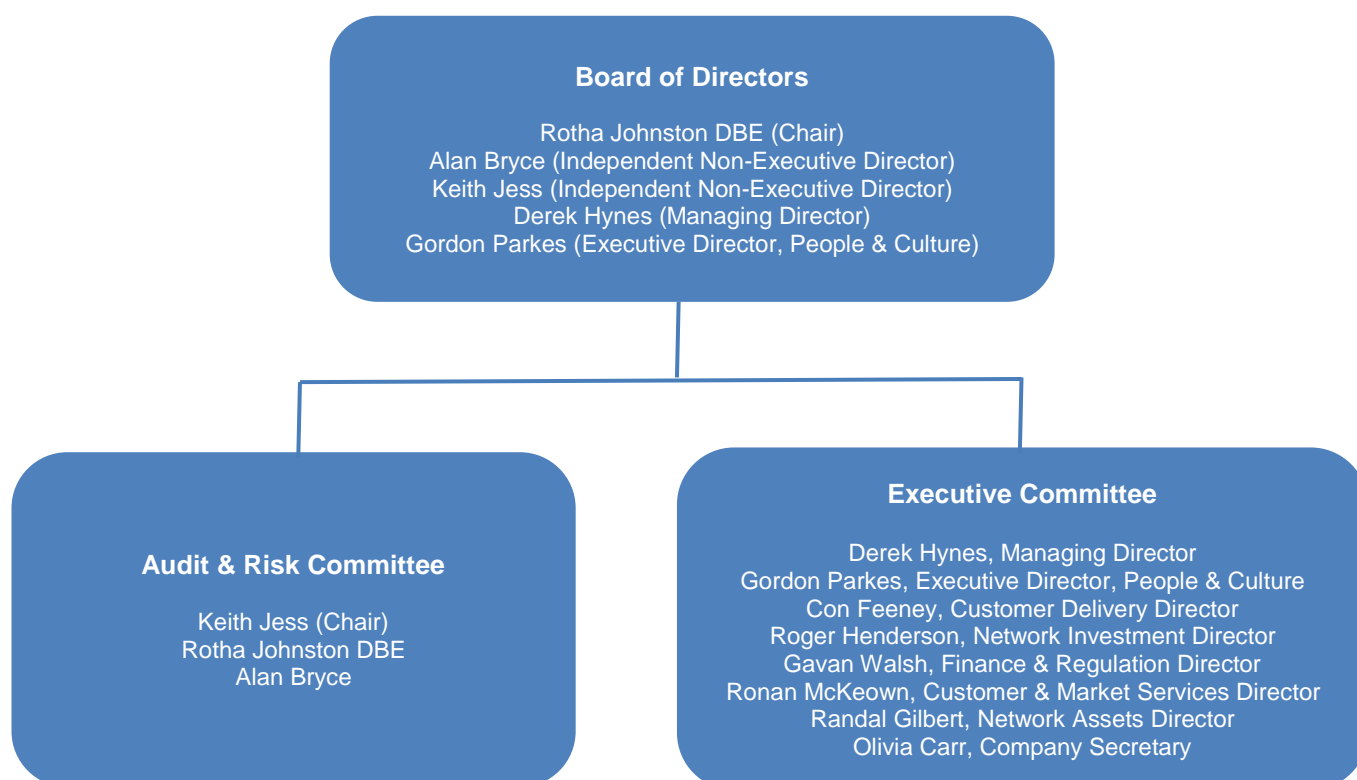
The Board is responsible for reviewing NIE Networks' operational and financial performance and for ensuring effective internal control and risk management. During the year the Board received training on legislative requirements in respect of its responsibility and accountability for health and safety. There is a formal schedule of matters reserved to the Board for decision including approval of: the Annual Financial Plan; dividends; annual statutory, interim and regulatory financial statements; major capital expenditure; major regulatory submissions and certain annual regulatory reports; key corporate policies; the annual Health, Safety and Wellbeing Plan; and appointments to the Executive Committee on the recommendation of the Managing Director. The Board has five scheduled meetings

each year and two additional meetings to focus on longer-term strategic issues with further meetings on specific matters as required.

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

The Audit & Risk Committee is a formally constituted committee of the Board, comprising solely NEDs, with detailed terms of reference updated and approved by the Board during 2022, setting out its responsibility for overseeing the Group's financial reporting process and internal control and risk management systems. More detail on the activities of the Committee is provided on pages 37-38.

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



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

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

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

The corporate relationship between NIE Networks and its ultimate parent, ESB, is set out formally, and specifies the standards of governance, internal control and risk management arrangements which NIE Networks must have in place, reporting arrangements to ESB, the responsibilities of the NIE Networks Board and Managing Director and the

annual business planning process to meet group requirements. The arrangements are consistent and compliant with NIE Networks' regulatory conditions and the Compliance Plan with respect to NIE Networks' independence within the ESB Group.

Opportunity and Risk

To ensure the long-term sustainable success of NIE Networks, the Company continues to seek regulatory allowances or incentive arrangements as appropriate, for innovative developments to improve performance and to enable the long-term development of the network for future customers. During the year, the Board approved a revised request to obtain allowances for 'Green Recovery Scheme' projects. These projects, for which allowances were subsequently approved by the UR, are aimed at providing timely investment in the electricity network to facilitate the DfE's ambition to encourage innovation in renewable energy and low carbon technologies whilst providing stimulus to grow the NI economy.

The Company recognises that making the necessary provisions for investment in the electricity network is particularly important in the context of NI's Energy Strategy and its associated targets for uptake in renewable technologies. As a result, during 2022 the Board and management welcomed the announcement by the UR to extend the RP6 price control by one year to March 2025, and delay commencement of RP7, to enable greater consultation and dialogue with stakeholders around the implications of achieving the Government's Climate Change goals. The Board and management have liaised with the UR throughout 2022 on the Company's proposals for the RP6 extension period with final licence modifications expected to be published in March 2023 following the UR's public consultation on its proposals.

During 2022, the Company continued development of the roadmap for long-term transition to a distribution system operator as outlined in its Networks for Net Zero Report published in 2021. Overseen by the Board, management focused on strategies to support and enable decarbonisation and electrification, pursuing opportunities to sustain and enhance the relevance and value of the business in the longer term by adapting to changing stakeholder needs. Informed by the publication of the DfE's Energy Strategy for NI in 2021 and the ambitious goals outlined in the Climate Change Bill passed by the NI Assembly in March 2022 and enacted into law in June 2022, the Company focused on its business plan for RP7 due for submission to the UR by 31 March 2023. As part of its preparations, the Company launched a public consultation in October 2022 seeking engagement from a wide range of stakeholders to inform its plans for the future and to highlight the key role electrification will play in supporting government to deliver its targets. Against the backdrop of the Climate Change Act, making a legal commitment to net zero carbon emissions by 2050 and committing to 80% of electricity consumption coming from renewable sources by 2030, the Company believes a transformational RP7 plan is required to deliver for customers now and in the future.

The Board has overall responsibility for risk management and internal control, ensuring that the Group's risk exposure remains proportionate to the pursuit of its strategic objectives and longer-term stakeholder value. The Board delegates responsibility for oversight of risk to the Audit & Risk Committee which retains overall responsibility for ensuring that enterprise risks are properly identified, assessed, reported and controlled on behalf of the Board in its consideration of overall risk appetite, risk tolerance and risk strategy. The process of considering the Group's exposure to risk and the changes to key risks has assisted the Board in its review of strategy and the operational challenges faced by the Group.

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

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

During the year, the Audit & Risk Committee received updates on the implementation plan agreed with the Committee in 2021 following an independent review of NIE Networks' Enterprise Risk Management Process with a number of recommendations made to further improve processes.

The Audit & Risk Committee regularly reviews management's assessment of the principal risks and mitigating actions, and emerging risks and considers detailed presentations on mitigating specific risks. During 2022, the Committee considered the risks arising as a result of the Russia/Ukraine conflict and the impact of Covid-19 on global supply chains as the economy emerged from the pandemic, noting the need for the Company to seek alternative supply lines for some critical items of stock. Principal risks are set out in pages 26-30 in the Group Strategic Report. At least annually the Board considers and agrees risk tolerances for key business activities.

The Internal Audit function reports to the Audit & Risk Committee, independent of management, and provides independent assurance to the Committee on the adequacy and effectiveness of NIE Networks' system of governance, risk management and control. During the year the Board approved the appointment of Grant Thornton as Internal Auditor who commenced their engagement with the Company in March 2022.

Remuneration

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

The Board has oversight of the Company Agreements entered into with Trade Unions which determine the remuneration of the 75% of employees not on personal contracts.

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

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

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

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

NEDs receive fees under their contracts for services. They do not receive pensions or any other remuneration.

Stakeholder Relations and Engagement

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

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

The Board has endorsed the Company's external stakeholder engagement strategy, the key element of which is to set out the Company's current, and developing, role within the industry, how it ensures: reliability of network performance, safety of the network, minimal impact on the environment and continual improvement in customer service and satisfaction. Throughout 2022 the Managing Director led the implementation of the strategy. The strategy identifies key stakeholders and their issues and interests, the Company's objectives in the engagement process and the planned delivery against each objective. During 2022 the strategy focused on engaging on proposals for a green economic recovery in Northern Ireland, NIE Networks' role in that recovery and engaging with key policy makers to actively contribute to the DfE's Northern Ireland Energy Strategy to 2030. In the second half of the year, the focus was on engaging widely on the Company's RP7 Business Plan outlining the need for skills, technologies and behaviours to take Northern Ireland towards the vision of affordable energy and net zero carbon by 2050.

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

The NEDs are involved directly in engagement with the Utility Regulator Board members, senior government officials and elected representatives and industry groups as appropriate on key strategic matters.

Further details on engagement with key stakeholders are provided on pages 23-25.

Given its dependence on highly trained, skilled and engaged people within the business to achieve its objectives, the Board recognises that NIE Networks' workforce is one of its most significant stakeholder groups. NIE Networks places considerable emphasis on its employee participation and engagement processes which are well embedded in the Company's culture. The Executive Director, People & Culture, an executive director of the Board, oversees and leads the employee engagement processes, providing regular updates to the Board during 2022 on the processes and matters being addressed, through the various forums, particularly in relation to responding to the pandemic, the Safer Together programme and resourcing; with NEDs attending meetings of the Employee Engagement Board during the year.

In November 2022, the NEDs met informally with employees for lunch at one of the Company's offices marking a return to informal engagement following the pandemic.

Details of employee engagement processes are provided on pages 18-19 and 21-22 of Group Strategic Report.

Audit & Risk Committee

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

The Audit & Risk Committee comprises the independent non-executive directors, chaired by Keith Jess. The Board is satisfied that at least one member of the Committee is competent in accounting and auditing. The Committee had five meetings during 2022.

The terms of reference, which were reviewed and updated by the Board during the year, set out the duties of the Audit & Risk Committee. The most significant issues considered by the Committee during 2022, and up to the date of this report, are outlined below:

Financial Reporting

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

Internal Controls and Risk Management

- considered and approved the RMC's work programme for 2022 and received regular updates on progress;
- considered the Group's principal risks faced, together with mitigating actions being taken to manage the risks, and their alignment to the risk tolerance levels agreed with an updated risk appetite assessment relating to the Group's principal risks and other key business activities;
- monitored progress to ensure compliance with the Networks Information Systems Directive and considered a number of updates on cyber security risks, mitigations and the programme to address these increased risks at NIE Networks;
- reviewed the Group's statements for publication on the prevention of slavery and human trafficking;
- reviewed the operation of the Group's key ethics policies including the adequacy of the arrangements in place for employees to raise concerns about possible wrongdoing; and
- reviewed and monitored the effectiveness of internal controls and the risk management framework.

The Committee considered an independent review of NIE Networks' Cyber Security Maturity Levels, conducted by our data protection and security advisers Gemserv, which identified areas of good practice and made a number of recommendations to further improve cyber security and agreed an implementation plan.

Internal Audit

- following the appointment of Grant Thornton as Internal auditor in March 2022, considered Grant Thornton's internal audit plan for 2022;
- monitored progress throughout the year against this plan;

- reviewed reports detailing the results of internal audits and the timeliness of the implementation of actions; and
- reviewed and approved the draft 2023 internal audit plan.

External Audit

- reviewed reports from the external auditor on the audit of the 2021 statutory financial statements and March 2022 regulatory financial statements;
- considered an assessment of the external audit function during the annual audit cycle to the completion of the 2021/22 regulatory accounts, concluding that the external audit process was effective;
- reviewed the proposed external audit plan for the 2022 statutory financial statements to ensure that the external auditor had identified all key audit risks and developed robust audit procedures;
- considered the external auditors' adherence to independence requirements;
- reviewed the report from the external auditor on the audit of the 2022 statutory financial statements and comments on accounting, financial control and other audit issues; and
- reviewed policies on the supply of non-audit services by the external auditors and employment of former employees of the external auditor.

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

Change in external auditor in 2023

It is intended that PricewaterhouseCoopers LLP will resign as external auditor in June 2023 and that Deloitte LLP will be appointed as external auditor to the Company.

During the year the effectiveness of the Audit & Risk Committee was reviewed as part of the Board's review of the implementation of actions from the 2021 externally conducted performance evaluation.

Internal Control Framework

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

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

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

The Board, supported by the Audit & Risk Committee, has reviewed the effectiveness of the system of internal control and has concluded that, during 2022, the overall governance, risk management and internal control framework was adequate to provide reasonable assurance of sound internal control and that NIE Networks maintained an effective system of internal control which would prevent or detect against material misstatement or loss.

Streamlined Energy and Carbon Reporting (SECR) statement

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

This SECR Compliance report is prepared for the period from 1 January 2022 to 31 December 2022, NIE Networks' third reporting year under the SECR scheme.

Methodology used in calculating energy and carbon reporting data

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

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

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

UK energy use:

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

In addition, petrol used in plant and equipment, gas oil, heating oil, air travel, taxi mileage for business purposes and fugitive emissions from air-conditioning have also been included voluntarily.

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

- Gas data for December for three premises was not available and has been estimated based on historical consumption patterns.

NIE Networks' Environmental Management System is certified to ISO14001. Its carbon targets, performance and trends are tracked on a monthly basis and presented to an internal Environmental Management Committee, chaired by the Sustainability and Environment Manager and sponsored by the Network Assets Director, for governance purposes.

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

Energy and Carbon Data

Energy consumption data and associated scope 1, 2 and 3 emissions were collated for NIE Networks' operations in line with the methodologies outlined above. The table below provides details of NIE Networks' energy consumption in kWh and the quantity of emissions using tonnes of carbon dioxide equivalent (tCO₂e).

While the inclusion of petrol used in equipment, gas oil, heating oil, air travel, taxi hire for business purposes and fugitive emissions from air conditioning is not mandatory under SECR requirements, NIE Networks has voluntarily included the information in this report.

Scope and Categories	2022		2021	
	2022 Energy Data (kWh)	2022 GHG Emission (Tonnes of CO ₂ e)	2021 Energy Data (kWh)	2021 GHG Emission (Tonnes of CO ₂ e)
Scope 1				
Combustion of Natural Gas	332,825	60	521,891	96
Combustion of Liquefied Petroleum Gas (LPG)	53,686	12	49,747	11
Combustion of Diesel for transport purposes	14,146,556	3,414	13,554,622	3,210
Voluntary Disclosures	-	170	-	420
<i>Scope 1 Total (mandatory)</i>	<u>14,533,067</u>	<u>3,486</u>	<u>14,126,260</u>	<u>3,317</u>
<i>Scope 1 Total (incl. voluntary disclosures)</i>	<u>-</u>	<u>3,656</u>	<u>-</u>	<u>3,737</u>
Scope 2				
Purchase of grid electricity	2,658,536	923	2,922,364	1,014 ¹
Electricity for Transport	22,289	8	-	-
<i>Scope 2 Total</i>	<u>2,680,825</u>	<u>931</u>	<u>2,922,364</u>	<u>1,014</u>
Scope 3				
Grey Fleet Mileage	2,568,777	656	2,325,181	583
Hire Car Mileage	-	-	-	-
Business Air Travel (incl. radiative forces) (voluntary)	-	13	-	3
Business Taxi Mileage (voluntary)	265	-	680	-
Total (mandatory)	<u>19,782,669</u>	<u>5,073</u>	<u>19,373,805</u>	<u>4,914</u>
Total (incl. voluntary disclosures)	<u>-</u>	<u>5,256</u>	<u>-</u>	<u>5,337</u>

Intensity Ratio

SECR regulations require a statement of relevant intensity ratios which are an expression of the quantity of emissions in relation to a quantifiable factor of the business activity. NIE Networks' chosen intensity measurement is tonnes of carbon dioxide equivalent (tCO₂e) per employee. The intensity ratio for 2022 was 3.878 tCO₂e (2021: 4.068 tCO₂e).

Only mandatory emissions are relevant in the calculation of the intensity ratio.

Measures for increasing the Group's efficiency during the year

NIE Networks operates an aged office building stock but has made concerted efforts to reduce energy consumption over the last number of years.

Following a number of energy performance improvement initiatives across the office building portfolio, there has been, on average, a 21% reduction in electricity consumption over the last five years. The electricity consumption at 12 of 16 office buildings has reduced in 2022. Overall there has been a 9% reduction in office electricity consumption and 36% reduction in gas consumption during 2022 when compared with 2021.

During 2022, our Dargan office in Belfast underwent a significant refurbishment and this should also be considered in terms of electricity consumption during 2022 as this building was not in use during a large part of 2022. The refurbishment was undertaken to improve energy efficiency, including the installation of solar photo-voltaic panels, installation of new windows, doors, roof, and insulated cladding. The successful completion of the refurbishment means this building now has an energy performance that is equivalent to a new building. NIE Networks is also currently finalising plans for a multi-million-pound project to build a Nearly Zero Energy Buildings (NZEB) building on its existing site in Craigavon. In addition, the Company is planning to add solar panels to all suitable sites. There are a number of upcoming office building refurbishments and replacement projects that will contribute to our carbon reduction targets in future years.

¹ Emissions from Electricity figure for 2021 updated based on updated DAERA emissions factor for electricity. Total for mandatory emissions and Total for voluntary disclosures for 2021 also updated to reflect this change. The intensity factor has also been updated to reflect this change.

NIE Networks also initiated a project to consolidate all of its rented office buildings in Belfast, which will see five leased offices in Belfast consolidated to one existing single, leased premises at Danesfort, which is currently being expanded and modernised. The refurbishment and redesigning works are expected to be an EPC Grade A Standard. Two offices relocated to Danesfort in 2022 with the remaining two offices relocating during 2023. This project is expected to reduce energy consumption, improve energy efficiency, reduce interoffice travel and improve the health and wellbeing of our staff that work there.

After a long-term initiative to reduce fuel usage of NIE Networks' fleet vehicles, NIE Networks continues to strive to maintain this usage at the lowest possible level whilst meeting the operational needs of the business. Fleet fuel consumption has reduced by 1.3% over the last six years. Over the course of the year, the NIE Networks fleet increased in size by 17 vehicles and 18 existing vans were replaced with electric vehicles, which will contribute to the future reduction in carbon emissions in this area. A new vehicle tracking system introduced in 2020 provides information to help inform sustainable driving. The data from this vehicle tracking system is used to identify the vehicles suitable for transition to an electric equivalent as part of the overall transition plan.

As part of the roll out of fleet EVs, during 2022 the Company initiated the installation of vehicle charge points at depots and at the home locations of fleet drivers. By the end of 2024, the Company will have electrified 14% of its fleet, with a target to reach 70% of fleet vehicles powered by alternative fuels by 2030.

The net impact of these changes saw an increase in fuel consumption by fleet vehicles of approximately 4% during the year.

Following the success of a pilot scheme in 2022, NIE Networks is launching an electric car scheme in 2023 for business users to encourage electric vehicle uptake amongst employees.

The mileage from new fleet electric vehicles charged at home chargers is included within Scope 2 emissions for 2022.

During 2022, NIE Networks implemented the following energy efficiency measures:

- had its Letter of Commitment accepted by the Science Based Target Initiative (SBTi) setting both near term reduction and long-term Net Zero targets;
- delivered the second year of NIE Networks' Sustainability Action Plan 2021-24, achieving a 10.5% carbon footprint reduction for 2022 compared to the 2019 baseline;
- the Sustainability Forum continued to identify, develop and implement initiatives associated with reducing NIE Networks' carbon footprint;
- completed refurbishment of its existing Dargan Depot building in Belfast which will contribute to carbon reduction targets in future years;
- closed two rented offices in Belfast and relocated staff to an expanded Head Office at Danesfort, Belfast to reduce energy consumption, improve efficiency and reduce interoffice travel;
- implemented Agile Home Working Policy which upholds home working arrangements established during the Covid-19 pandemic for staff in suitable roles and contributes to reduced carbon emissions by decreasing commuting;
- awarded a contract for a PPA-backed, green electricity tariff for all our offices and depots;
- replaced 18 fleet vans with electric vehicles;
- initiated the installation of electric vehicle charge points at depots and at home locations of relevant fleet vehicle drivers; and
- delivered Energy and Climate Awareness training to all staff to raise awareness and empower staff to take action to reduce energy in their daily activities.

Directors' Insurance

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

Disclosure of Information to the Independent 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 and Company'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 Company's auditors are aware of that information.

Appointment of Independent Auditors

Following a tendering exercise, NIE Networks has selected Deloitte LLP to replace PricewaterhouseCoopers LLP during 2023 as statutory auditor for NIE Networks. Deloitte LLP will be recommended for appointment as statutory auditor for the audit of the statutory accounts for 2023.

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 (2021 - £nil).

Group Strategic Report

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

- an indication of future developments in the business (see pages 5 – 20);
- the Group's objectives and policies for financial risk management (including liquidity risk and credit risk) (see pages 8 - 9);
- a statement on the policy for disabled employees (see page 18);
- an indication of activities in the Group in the field of research and development (see pages 14 - 16);
- arrangements for employees to participate in the affairs of the Group (see pages 18 – 19);
- how the directors have engaged with employees, how they have had regard to employee interests and the effect of that regard, including on the principal decisions taken by the Group (see pages 18 – 23 and page 36); and
- how the directors have had regard to the need to foster the Group's business relationships with suppliers, customers and others and the effect of that regard, including on the principal decisions taken by the Group (see pages 23 – 25 and pages 36 – 37).

Statement of Directors' Responsibilities in respect of the financial statements

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

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 UK-adopted international accounting standards and the 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 for that period. In preparing the financial statements, the directors are required to:

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

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

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's 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.

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.

Directors' confirmations

Each of the directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the group;
- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the company; and
- the Group Strategic Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Derek Hynes
Managing Director

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

Registered Number: NI026041
28 March 2023

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 2022 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the group and the company Balance Sheets as at 31 December 2022; the group Income Statement, the group Statement of Comprehensive Income, the group and company Statements of Changes in Equity and the group Cash Flow Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Audit scope

- We performed a full scope audit over the financially significant component (Northern Ireland Electricity Networks Limited).

Key audit matters

- Accounting estimate - unbilled debt (group and company)
- Initial capitalisation of assets (group and company)
- Accounting estimate - asset retirement obligation (group and company)

Materiality

- Overall group materiality: £3,980,000 (2021: £4,355,000) based on 5% of profit before tax.
- Overall company materiality: £3,795,000 (2021: £4,256,000) based on 5% of profit before tax capped at 95% of group materiality.
- Performance materiality: £2,985,000 (2021: £3,266,250) (group) and £2,846,250 (2021: £3,192,000) (company).

The scope of our audit

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

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;

INDEPENDENT AUDITORS' REPORT to the members of Northern Ireland Electricity Networks Limited

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.

Accounting estimate - asset retirement obligation is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><i>Accounting estimate - unbilled debt (group and company)</i></p> <p>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.</p> <p>Note 16 in the financial statements.</p>	<p>We understood and tested the processes and internal controls which the Company has in place for the estimation of the unbilled revenue amounts.</p> <p>We tested the unbilled calculation for completeness and accuracy.</p> <p>We tested the adjustments made throughout the year for actual versus budgeted consumption to evaluate management's estimation accuracy along with reviewing adjustments post year-end.</p> <p>We challenged management on variances between actuals and estimate along with assumptions within the estimate. Based on the results of the audit procedures performed, we found the estimate for unbilled debt to be reasonable.</p> <p>We also considered the completeness, accuracy and reasonableness of the disclosures in the financial statements related to this estimate and consider the disclosures made in the financial statements appropriate.</p>
<p><i>Initial capitalisation of assets (group and company)</i></p> <p>There is a significant level of costs being capitalised in relation to expenditure on the network, including direct and indirect costs (both labour and overheads). The total property, plant and equipment balance is significant to the Balance Sheet and the group and company's total asset value. Due to the heightened risk from the quantitative and qualitative factors, capitalisation of assets is a focus of our audit.</p> <p>Note 9 in the financial statements.</p>	<p>We understood and tested the processes and internal controls which the Company has in place for capitalisation of direct and indirect costs.</p> <p>We sampled a selection of direct costs and direct labour capitalised into assets to verify accuracy, existence and proper classification as capitalisable costs.</p> <p>We tested management's calculation of indirect costs (including labour and overheads) that are to be capitalised into assets for accuracy and consistency. We challenged management's assumptions for capitalisation of indirect costs and any changes in assumptions year on year.</p> <p>Based on the results of the audit procedures performed, we concluded that the capitalisation of assets is materially accurate.</p> <p>We also considered the completeness, accuracy and reasonableness of the disclosures in the financial statements related to capitalisation of assets and consider the disclosures made in the financial statements appropriate.</p>
<p><i>Accounting estimate - asset retirement obligation (group and company)</i></p> <p>During the year, as a result of a change in legislation, the group made a provision for asset retirement obligations in respect of the group and company's obligations to appropriately dispose of creosote treated wooden poles. Given the significance of the provision, the focus on environmental obligations and the timing of future outflows in respect of the</p>	<p>We understood management's processes and controls in place over the asset retirement obligation calculation and over the data used within the calculation.</p> <p>We assessed the estimates of asset retirement obligations including considering the quantum, nature and timing of costs. Our evaluation included</p>

INDEPENDENT AUDITORS' REPORT

to the members of Northern Ireland Electricity Networks Limited

obligation requires judgement, the asset retirement obligation is a focus of our audit.

Note 23 in the financial statements.

discussions with management to understand the basis for the assumptions made in relation to the cost of disposal of the creosote treated wood poles.

We consulted internally with our accounting specialists regarding the appropriateness of the estimate in line with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets and whether the regulation has resulted in a present obligation as at the balance sheet date.

We critically assessed and challenged management in respect of these costs. We also assessed and challenged the assumptions made in respect of the timing of the pole disposals based on the ageing and useful economic lives. We considered the appropriateness of the discount rates used by comparing against external benchmarks.

We concluded that the assumptions and methodology adopted by management to calculate the asset retirement obligation was reasonable.

We also considered the disclosures in the financial statements in relation to these matters and consider the disclosures to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

As part of our procedures to develop our Audit Strategy, as well as meeting with management, we attended a number of the Audit and Risk Committee meetings during the year, engaged with Internal Audit, obtained a written risk assessment from the Sustainability Manager and held discussions with management's legal and environmental specialists. The Northern Ireland Electricity Networks Limited Group comprises of Northern Ireland Electricity Networks Limited, NIE Finance PLC and NIE Networks Services Limited. Only Northern Ireland Electricity Networks Limited is deemed financially significant to the group and therefore requires an audit of their complete financial information. NIE Finance PLC was in scope for specific balances including the listed debt, interest expense, cash and journal entry procedures. 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 considering the developing regulations due to climate change. 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.

The impact of climate risk on our audit

As part of our audit, we considered the potential impacts of climate change on the group and company's business and its financial statements. This included obtaining an understanding of management's processes in place to monitor the impacts of climate change considering the impact expected on the electricity industry, their own risk assessment over physical and transitional risks, and their published net zero plans. Climate change initiatives and commitments did not have a significant financial impact on the current year. However, a change in regulations related to the disposal of creosote treated wood poles resulted in a material asset retirement obligation being recorded in the current year. As noted within the Group Strategic Report, the group has set targets to achieve net zero by 2050, the consequences, in terms of investments, its cost bases and how quickly the regulator will begin to require implementation of new regulations is still unknown and being assessed. Management has considered potential impacts to current estimates and judgements in line with IFRS requirements, along with the required disclosures over key judgements and principal risks. We discussed with management the ways in which climate change disclosures should continue to evolve as the group and company continues to develop its response to the impact of climate change. We also considered the consistency of the disclosures in relation to climate change made in the other information within the Annual Report with the financial statements and our knowledge from our audit.

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.

INDEPENDENT AUDITORS' REPORT

to the members of Northern Ireland Electricity Networks Limited

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

	Financial statements - group	Financial statements - company
<i>Overall materiality</i>	£3,980,000 (2021: £4,355,000).	£3,795,000 (2021: £4,256,000).
<i>How we determined it</i>	5% of profit before tax	5% of profit before tax capped at 95% of group materiality
<i>Rationale for benchmark applied</i>	Based on the benchmarks used in the annual report, profit before tax is one of the primary measures used by the shareholder 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 shareholder in assessing the performance of the group, and is a generally accepted auditing benchmark. The materiality is capped to reduce the risk that the aggregate of identified and unidentified misstatements in the group financial statements are material.

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 £234,000 to £3,795,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £2,985,000 (2021: £3,266,250) for the group financial statements and £2,846,250 (2021: £3,192,000) for the company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £199,700 (group audit) (2021: £212,813) and £189,750 (company audit) (2021: £212,800) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

INDEPENDENT AUDITORS' REPORT

to the members of Northern Ireland Electricity Networks Limited

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

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 2022 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 in respect of the financial statements, 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.

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, the Company's Participate in Transmission Licence and Electricity Distribution Licences, and environmental regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to revenue or fixed asset additions and management bias through judgements and assumptions in significant accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with Audit and Risk Committee, management and the group's internal legal advisors, environmental specialists, tax specialists and compliance officers, including considerations of known or suspect instances of non-compliance with laws and regulations and fraud;
- Discussions and understanding of the nature of open matters between the company and the Northern Ireland Authority for Utility Regulation;
- Review of minutes from board meetings;
- Challenging assumptions and judgements made by management in their accounting estimates; and
- Identifying and testing journal entries, in particular any journal entries posted with an unusual description, unusual nominal account combination to revenue or fixed assets, unusual entries to unbilled debt or entries made by unexpected users.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to

INDEPENDENT AUDITORS' REPORT

to the members of Northern Ireland Electricity Networks Limited

target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Emma Murray (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
28 March 2023

GROUP INCOME STATEMENT

for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Revenue	3	302.5	297.0
Operating costs	4	<u>(185.4)</u>	<u>(173.4)</u>
OPERATING PROFIT		117.1	123.6
Finance revenue	6	1.8	-
Finance costs	6	(39.4)	(35.3)
Net pension scheme interest	6	0.1	(1.2)
Net finance costs	6	<u>(37.5)</u>	<u>(36.5)</u>
PROFIT BEFORE TAX		79.6	87.1
Tax charge	7	<u>(22.3)</u>	<u>(47.7)</u>
PROFIT FOR THE YEAR		<u>57.3</u>	<u>39.4</u>

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

Group

	Note	2022 £m	2021 £m
Profit for the financial year		<u>57.3</u>	<u>39.4</u>
Other comprehensive income:			
Items not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains on pension scheme assets and liabilities	13	41.5	81.2
Deferred tax (charge) relating to components of other comprehensive income	7	(10.4)	(15.4)
Deferred tax credit relating to change in future tax rate	7	<u>6.1</u>	<u>-</u>
Net other comprehensive income for the year		<u>37.2</u>	<u>65.8</u>
Total comprehensive income for the year attributable to the equity holders of the parent company		<u>94.5</u>	<u>105.2</u>

BALANCE SHEETS

as at 31 December 2022

		Group		Company	
	Note	2022 £m	2021 £m	2022 £m	2021 £m
Non-current assets					
Property, plant and equipment	9	2,090.9	1,965.1	2,091.7	1,965.9
Right of use assets	10	15.9	10.0	15.9	10.0
Intangible assets	11	20.1	18.9	20.1	18.9
Derivative financial assets	20	285.9	583.5	285.9	583.5
Investments	12	-	-	7.9	7.9
Pension asset	13	52.8	-	52.8	-
		2,465.6	2,577.5	2,474.3	2,586.2
Current assets					
Short-term investments	14	170.0	-	170.0	-
Inventories	15	17.5	16.5	17.5	16.5
Trade and other receivables	16	62.3	55.4	62.3	55.4
Current tax receivable		-	6.2	-	6.2
Derivative financial assets	20	212.3	21.6	212.3	21.6
Cash and cash equivalents	17	77.9	10.8	77.9	10.8
		540.0	110.5	540.0	110.5
TOTAL ASSETS		3,005.6	2,688.0	3,014.3	2,696.7
Current liabilities					
Trade and other payables	18	77.6	76.9	86.8	86.1
Lease liabilities	10	2.8	2.1	2.8	2.1
Current tax payable		-	-	-	-
Deferred income	19	21.4	21.1	21.4	21.1
Financial liabilities:					
Derivative financial liabilities	20	212.3	21.6	212.3	21.6
Other financial liabilities	21	19.8	56.4	19.8	56.4
Provisions	23	2.5	2.9	2.5	2.9
		336.4	181.0	345.6	190.2
Non-current liabilities					
Deferred tax liabilities	7	142.3	127.4	142.3	127.4
Deferred income	19	549.9	537.8	549.9	537.8
Lease liabilities	10	13.7	8.3	13.7	8.3
Financial liabilities:					
Derivative financial liabilities	20	285.9	583.5	285.9	583.5
Other financial liabilities	21	1,094.5	748.1	1,094.5	748.1
Provisions	23	34.2	4.0	34.2	4.0
Pension liability	13	-	7.1	-	7.1
		2,120.5	2,016.2	2,120.5	2,016.2
TOTAL LIABILITIES		2,456.9	2,197.2	2,466.1	2,206.4
NET ASSETS		548.7	490.8	548.2	490.3
Equity					
Share capital	24	36.4	36.4	36.4	36.4
Share premium	24	24.4	24.4	24.4	24.4
Capital redemption reserve	24	6.1	6.1	6.1	6.1
Retained earnings	24	481.8	423.9	481.3	423.4
TOTAL EQUITY		548.7	490.8	548.2	490.3

The profit after tax of the Company for the year is £57.3m (2021 - £39.4m).

The financial statements on pages 50 to 82 were approved by the Board of Directors on 21 March 2023 and signed on its behalf by:

Derek Hynes

Director

Date: 28 March 2023

Company number: NI026041

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2022

Group

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 January 2021		36.4	24.4	6.1	358.1	425.0
Profit for the year		-	-	-	39.4	39.4
Net other comprehensive income for the year		-	-	-	65.8	65.8
Total comprehensive income for the year		-	-	-	105.2	105.2
Transactions with owners in their capacity as owners:						
Dividends to the shareholder	24	-	-	-	(39.4)	(39.4)
At 31 December 2021		36.4	24.4	6.1	423.9	490.8
Profit for the year		-	-	-	57.3	57.3
Net other comprehensive income for the year		-	-	-	37.2	37.2
Total comprehensive income for the year		-	-	-	94.5	94.5
Transactions with owners in their capacity as owners:						
Dividends to the shareholder	24	-	-	-	(36.6)	(36.6)
At 31 December 2022		36.4	24.4	6.1	481.8	548.7

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2022

Company

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 January 2021		36.4	24.4	6.1	357.6	424.5
Profit for the year		-	-	-	39.4	39.4
Net other comprehensive income for the year		-	-	-	65.8	65.8
Total comprehensive income for the year		-	-	-	105.2	105.2
Transactions with owners in their capacity as owners:						
Dividends to the shareholder	24	-	-	-	(39.4)	(39.4)
At 31 December 2021		36.4	24.4	6.1	423.4	490.3
Profit for the year		-	-	-	57.3	57.3
Net other comprehensive income for the year		-	-	-	37.2	37.2
Total comprehensive income for the year		-	-	-	94.5	94.5
Transactions with owners in their capacity as owners:						
Dividends to the shareholder	24	-	-	-	(36.6)	(36.6)
At 31 December 2022		36.4	24.4	6.1	481.3	548.2

CASH FLOW STATEMENT

for the year ended 31 December 2022

		Group	
	Note	2022	2021
		£m	£m
Cash flows generated from operating activities			
Profit for the year		57.3	39.4
Adjustments for:			
Tax charge		22.3	47.7
Net finance costs		37.5	36.5
Depreciation of property, plant and equipment		85.2	81.8
Depreciation of leased assets		3.2	3.1
Amortisation of intangible assets		5.3	6.1
Release of customers' contributions and grants		(20.5)	(20.1)
Defined benefit pension charge less contributions paid		(18.3)	(17.8)
Net movement in provisions		(1.1)	0.3
Operating cash flows before movement in working capital		170.9	177.0
(Increase) / decrease in inventories		(1.0)	1.8
(Increase) / decrease in trade and other receivables		(5.0)	5.2
Decrease in trade and other payables		(17.6)	(27.7)
Increase in working capital		(23.6)	(20.7)
Cash generated from operations		147.3	156.3
Interest received		0.8	-
Interest paid		(35.3)	(34.6)
Lease interest paid		(0.3)	(0.3)
Current taxes received/(paid)		9.0	(8.9)
Net cash flows generated from operating activities		121.5	112.5
Cash flows used in investing activities			
Purchase of property, plant and equipment		(177.4)	(152.8)
Customers' cash contributions		33.0	39.0
Purchase of intangible assets		(6.5)	(7.2)
Short-term investments		(170.0)	-
Net cash flows used in investing activities		(320.9)	(121.0)
Cash flows generated from/(used in) financing activities			
Dividends paid to shareholder		(36.6)	(39.4)
Amounts received from group undertakings		53.0	40.0
Amounts repaid to group undertakings		(93.0)	-
Payment of lease liabilities		(2.9)	(2.8)
Net proceeds of borrowings		346.0	-
Net cash flows generated from/(used in) financing activities		266.5	(2.2)
Net increase/(decrease) in cash and cash equivalents		67.1	(10.7)
Cash and cash equivalents at beginning of year		10.8	21.5
Cash and cash equivalents at end of year	17	77.9	10.8

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

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

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

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

2. Accounting Policies

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

New and revised accounting standards, amendments and interpretations

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2022, have had a material impact on the financial statements of the Group or Company.

New and revised accounting standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2023, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group or Company.

Basis of Preparation

The Group financial statements have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The Company has taken advantage of certain disclosure exemptions allowed under this standard as detailed below.

The financial statements of the Group and Company have been prepared under the historical cost convention except for the following:

- financial derivative instruments are measured at fair value through profit or loss; and
- defined benefit pension plan assets are measured at fair value.

The financial statements are presented in Sterling (£) with all values rounded to the nearest £1,000,000 except where otherwise indicated.

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

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

2. Accounting Policies (continued)

Basis of Preparation – Going Concern

The Group is financed through a combination of equity and debt finance. Details in respect of the Group's equity are shown in the Statement of Changes in Equity and in note 24 to the financial statements. The Group's debt finance at the year end comprised bonds of £350.0m, £400.0m and £350.0m (£349.2m, £399.3m and £346.0m respectively net of issue costs) which are due to mature in October 2025, June 2026 and December 2032 respectively and a £100.0m Revolving Credit Facility (RCF) from ESB, none of which was drawn down at 31 December 2022. The RCF is due to mature in December 2025.

The Company is financed through a combination of equity and subsidiary undertaking financing. Details in respect of the Company's equity are shown in the Statement of Changes in Equity and in note 24 to the financial statements. The terms of financing with its subsidiary undertaking mirror the Group's debt financing arrangements outlined above.

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

On the basis of their assessment of the Group and Company's financial position, which included a review of the projected funding requirements for a period of at least 12 months from the date of approval of the financial statements along with potential severe but plausible downside sensitivities, the directors have a reasonable expectation that both the Group and Company will have adequate financial resources for at least a 12-month period and continue to adopt the going concern basis in preparing the annual report and financial statements.

Basis of consolidation

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

Subsidiaries are consolidated from the day on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

Company's investments in subsidiaries

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

Property, plant and equipment

Property, plant and equipment is included in the balance sheet at cost, less accumulated depreciation and any recognised impairment loss. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate portion of relevant overheads. Overheads are initially expensed to the income statement with a portion being capitalised based on an assessment of the costs incurred that are attributable to the capital work performed. Interest on funding attributable to significant capital projects is capitalised during the period of construction provided it meets the recognition criteria in IAS 23 and is written off as part of the total cost of the asset.

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

- Infrastructure assets - up to 40 years
- Non-operational land and buildings - 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

2. Accounting Policies (continued)

Property, plant and equipment (continued)

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 de-recognised 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.

The treatment of costs related to asset retirement obligations, including capitalisation and depreciation of relevant costs, is detailed in the Provisions policy below.

Right of use assets and Lease liabilities

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

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

Intangible assets - Computer software

The cost of acquiring computer software is capitalised and amortised on a straight-line basis over its estimated useful life which is between three and ten years. Costs include direct labour relating to software development and an appropriate portion of directly attributable overheads. Interest on funding attributable to significant capital projects is capitalised during the period of construction provided it meets the recognition criteria in IAS 23 and is amortised 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 value for use in the ordinary course of business. Provisions are made for obsolete or slow moving items of inventory.

Financial instruments

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

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

Fair value through profit or loss

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

Financial assets measured at amortised cost

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

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

2. Accounting Policies (continued)

Financial instruments (continued)

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.

Short-term investments

Short-term investments comprise deposits with maturities of three to six months. These deposits are placed for varying periods of between three and six months depending on the cash requirements of the Group and Company, and earn interest at the respective short-term deposit rates.

Trade and other receivables

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

Other financial liabilities

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

Interest bearing loans and overdrafts

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

Trade and other payables

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

Borrowing costs

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

Revenue

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

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

Distribution Use of System (DUoS) revenue

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

Transmission service charge revenue

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

Public Service Obligation revenue

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

2. Accounting Policies (continued)

Revenue (continued)

Public Service Obligation revenue (continued)

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

Customers' contributions

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

Interest receivable

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

Government grants

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

Tax

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

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

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

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

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

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

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

Provisions

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

2. Accounting Policies (continued)

Provisions - (continued)

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.

NIE Networks considers the implication of known or potential changes in industry requirements and regulations – including the potential impact of climate change – when assessing where a provision is required.

Provision for asset retirement obligations

The provision for retirement and decommissioning of creosote treated wood poles represents the present value of the current estimate of the costs of the disposal of the poles at the end of their useful lives. The estimated costs of asset retirement obligations are recognised in full at the outset of the asset life, but discounted to present values using an appropriate risk-free pre-tax discount rate. The costs are capitalised in property, plant and equipment and are depreciated over the useful economic lives of the assets to which they relate unless the related asset has reached the end of its useful life. Any subsequent changes in the liability in respect of assets that have reached the end of their useful life will be recognised in the income statement as they occur. The costs will be reviewed each year and amended as appropriate. Any future amendments to the discounted estimated costs will be capitalised into the relevant assets and depreciated over the remaining life of those assets to the extent that the assets are still in use. As the costs are capitalised and initially provided on a discounted basis, the provision will be increased by a financing charge in each future period, which will be calculated based on the provision balance and discount rate applied at the last measurement date (updated annually) and included in the income statement as a financing charge. In this way, the provision will equal the estimated disposal costs at the end of the useful economic lives of the assets. The actual expenditure will be set against the provision as obligations are met. The provision for asset retirement obligations is included within current or non-current provisions as appropriate on the balance sheet.

Pensions and other post-retirement benefits

Employees of the Group are offered membership of the Northern Ireland Electricity Pension Scheme (NIEPS) which has both defined benefit and defined contribution pension arrangements. Pension costs in respect of defined contribution arrangements are charged to the income statement as they become payable. The remainder of this policy is therefore in respect of the defined benefit section of the scheme. 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 the net pension scheme asset/liability is included within net finance costs. Net interest is calculated by applying the discount rate to the net pension asset or liability.

Share capital

Ordinary shares are classified as equity. The nominal value of shares is recognised as share capital.

Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved.

2. Accounting Policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

Management considers that their use of estimates, assumptions and judgements in the application of the Group and Company's accounting policies are inter-related and therefore discuss them together below; with the major sources of estimation uncertainty and significant judgements separately identified.

Pensions and other post-employment benefits (Estimate and judgement)

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 13.

The Company has recognised an accounting surplus on the 'Focus' defined benefit pension scheme in line with the most recent IAS 19 valuation on the basis of the Company's assessment that it has the right to any remaining surplus on the eventual winding up of the pension scheme following gradual settlement of the scheme's liabilities.

In making this judgement, the Company is of the view that no other party has the unilateral right to wind-up the scheme or amend the liabilities of the scheme. Notwithstanding the current IAS 19 surplus, the company expects to continue to contribute deficit contributions in line with the agreement arising from the most recent funding valuation.

Asset retirement obligations (Estimate and judgement)

Future costs required to settle current provisions such as the creosote treated wood pole retirement provision are disclosed in note 23.

There is significant estimation required in determining the level of provision required for the disposal of creosote treated wood poles. This includes estimating the disposal cost per pole, which will be determined via competitive tender processes, the period over which poles will be disposed of which is dependent on pole condition and the use of an appropriate discount rate. The period over which poles are disposed of is estimated based on estimated useful economic life which could change significantly in the future as a result of operational plans, environmental legislation or pole condition.

Fair value measurement (Judgement)

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 20.

Other accounting judgements and sources of estimation uncertainty

The financial statements include other areas of judgement and accounting estimates which do not meet the definition under IAS 1 of significant accounting estimates or critical judgements, but for which the recognition and measurement of certain material assets and liabilities are based on assumptions or judgements that are subject to longer-term uncertainties.

Unbilled debt (Estimate)

Revenue includes an assessment of the volume of electricity distributed but not yet invoiced, estimated using historical consumption patterns. A corresponding receivable in respect of unbilled consumption is recognised within trade receivables.

Useful economic lives (Estimate and judgement)

The measurement of a Plant, Property & Equipment, Intangible assets and Right of Use assets requires a degree of estimation and judgement, including the estimation of useful economic lives and residual values. These items are estimated in accordance with the accounting policies of the Group and current UK-adopted international accounting standards. In addition, NIE Networks considers the implication of known or potential changes in industry requirements and regulations – including the potential impact of climate change – when assessing the useful economic lives of assets.

3. Revenue

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

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

	2022 £m	2021 £m
Revenue:		
Regulated tariff revenue	237.3	257.3
Release of customers' contributions	20.1	19.7
PPB PSO	36.7	9.9
Other unregulated revenue	8.4	10.1
	<u>302.5</u>	<u>297.0</u>

Revenue of £302.5m (2021 - £297.0m) includes £40.1m (2021 - £13.1m) recognised at a point in time comprising PPB PSO revenue of £36.7m (2021 - £9.9m) and elements of other unregulated revenue £3.4m (2021 - £3.2m).

As outlined in note 16, the Group does not have contract assets arising from contracts with customers (2021 - none).

The Group's contract liabilities are in the form of payments received on account (note 18) and deferred income in respect of customers' contributions (note 19), both of which relate to amounts charged to customers in respect of connections to the network. Revenue from the release of customers' contributions of £20.0m (2021 - £19.5m) represents revenue recognised during the year which would have been included within contract liabilities in the prior year.

None of the Group's revenue recognised during the year (2021 - none) relates to performance obligations satisfied in prior years.

Four customers with sales greater than 10% accounted for sales revenue totalling £241.5m (2021 - four customers accounted for £214.1m).

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:

	2022 £m	2021 £m
Employee costs (note 5)	30.6	24.6
Depreciation and amortisation	93.3	90.6
Other operating charges	61.5	58.2
	<u>185.4</u>	<u>173.4</u>

Operating costs include:

Depreciation charge on property, plant and equipment (note 9)	85.2	81.8
Depreciation on right of use assets (note 10)	3.2	3.1
Amortisation of intangible assets (note 11)	5.3	6.1
Amortisation of grants (note 19)	(0.4)	(0.4)
Cost of inventories recognised as an expense	1.1	1.2

Operating costs include:

	2022 £'000	2021 £'000
Auditors' remuneration		
<i>PricewaterhouseCoopers LLP:</i>		
Fees payable to the Group and Company auditors for the audit of the financial statements	127.0	93.0
Fees payable to the Group and Company auditors for other services:		
The audit of the company's subsidiaries pursuant to legislation	10.0	12.0
Audit related assurance services	87.5	10.0

5. Employees

Employee costs – Group and Company

	2022 £m	2021 £m
Wages and salaries	60.8	53.1
Social security costs	7.5	5.7
Other pension costs		
- defined contribution plans	9.7	8.0
- defined benefit plans	8.1	7.4
	<u>86.1</u>	<u>74.2</u>
Less: amounts capitalised to property, plant and equipment and intangible assets	<u>(55.5)</u>	<u>(49.6)</u>
Charged to the income statement	<u>30.6</u>	<u>24.6</u>

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

	Average monthly headcount		Actual headcount as at 31 December	
	2022 Number	2021 Number	2022 Number	2021 Number
Management, administration and support	367	320	392	317
Electrical services	945	888	975	912
Employee numbers	<u>1,312</u>	<u>1,208</u>	<u>1,367</u>	<u>1,229</u>

5. Employees (continued)

Directors' emoluments

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

	2022	2021
	£'000	£'000
Emoluments in respect of qualifying services	633	588

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:

	2022	2021
	Number	Number
Defined benefit pension scheme	-	-
Defined contribution scheme	1	2

Aggregate contributions by the Group and Company to the Company's defined contribution pension scheme in respect of the directors during the year was £66,578 (2021 - £75,891).

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

	2022	2021
	£'000	£'000
Emoluments	248	293

Contributions by the Company to the Company's defined contribution pension scheme in respect of the highest paid director was £40,536 (2021 - £37,685).

6. Net Finance Costs

	2022	2021
	£m	£m
Finance revenue:		
Bank interest receivable	1.8	-
Finance costs:		
£400m bond (Issued 2011)	(25.5)	(25.5)
£350m bond (Issued 2018)	(8.8)	(8.8)
£350m bond (Issued 2022)	(3.4)	-
Amounts payable to group undertakings (note 27)	(1.0)	(0.3)
Interest on lease liabilities	(0.3)	(0.3)
	(39.0)	(34.9)
Total interest charged to the income statement	(39.0)	(34.9)
Other finance costs:		
Amortisation of financing charges	(0.4)	(0.4)
Total finance costs	(39.4)	(35.3)
Net pension scheme interest	0.1	(1.2)
Net finance costs	(37.5)	(36.5)

6. Net Finance Costs (continued)

Funds from Operations (FFO) Interest Cover Ratio

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

	2022 £m	2021 £m
Operating profit	117.1	123.6
Add back depreciation and amortisation	93.3	90.6
Add back pension administration costs, curtailments and past service credits	1.9	1.6
Deduct amortisation of customer contributions	(20.0)	(19.5)
Deduct tax paid (including group relief paid)	(13.3)	(17.8)
Funds from operations	179.0	178.5
Gross interest paid	35.6	34.9
FFO to interest paid (times)	5.0	5.1

7. Tax Charge

(i) Analysis of charge during the year

	2022 £m	2021 £m
Group Income Statement		
Current tax charge		
UK corporation tax at 19.0% (2021 – 19.0%)	11.8	14.2
Total current income tax	11.8	14.2
Deferred tax charge		
Origination and reversal of temporary differences in current year	4.8	2.4
Effect of increased rate on opening liability	5.7	31.1
Total deferred tax charge	10.5	33.5
Total tax charge for the year	22.3	47.7
Tax relating to items (charged)/credited in other comprehensive income		
Deferred tax charge/(credit)		
Arising on re-measurement losses on pension scheme assets and liabilities	10.4	15.4
Effect of increased rate on opening asset	(6.1)	-
Deferred tax charge relating to components of other comprehensive income	4.3	15.4

7. Tax Charge (continued)

(ii) Reconciliation of total tax charge

The tax charge in the Group Income Statement for the year is higher than (2021 – higher than) the standard rate of corporation tax in the UK of 19.0% (2021 – 19.0%). The differences are reconciled below:

	2022 £m	2021 £m
Profit before tax	<u>79.6</u>	<u>87.1</u>
Profit before tax multiplied by the UK standard rate of corporation tax of 19.0% (2021 – 19.0%)	15.1	16.5
Tax effect of:		
Impact of deferred tax at increased rate	6.9	30.9
Other permanent differences / expenses not deductible	<u>0.3</u>	<u>0.3</u>
Total tax charge for the year	<u>22.3</u>	<u>47.7</u>

(iii) Deferred tax

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

	2022 £m	2021 £m
Deferred tax assets		
Pension liability	-	1.4
Other temporary differences	<u>0.2</u>	<u>0.2</u>
	<u>0.2</u>	<u>1.6</u>
Deferred tax liabilities		
Accelerated capital allowances	(128.1)	(127.9)
Held-over losses on property disposals	(1.1)	(1.1)
Pension asset	<u>(13.3)</u>	<u>-</u>
	<u>(142.5)</u>	<u>(129.0)</u>
Net deferred tax liability	<u>(142.3)</u>	<u>(127.4)</u>

HM Treasury announced an increase in the main rate of corporation tax from 19% to 25% with effect from 1 April 2023. This increased rate change was enacted during 2021 and therefore it is the rate at which deferred tax has been provided at the Balance Sheet date.

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

	2022 £m	2021 £m
Accelerated capital allowances	(0.1)	30.2
Temporary differences in respect of pensions	10.6	3.1
Other temporary differences	<u>-</u>	<u>0.2</u>
Deferred tax charge	<u>10.5</u>	<u>33.5</u>

8. Profit for the Financial Year

The profit of the Company is £57.3m (2021 - £39.4m). 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 2021	3,007.8	5.1	110.5	3.3	3,126.7
Additions	152.9	-	5.6	0.1	158.6
At 31 December 2021	3,160.7	5.1	116.1	3.4	3,285.3
Additions	205.4	-	5.6	-	211.0
At 31 December 2022	3,366.1	5.1	121.7	3.4	3,496.3
Accumulated depreciation:					
At 1 January 2021	1,152.7	2.2	80.8	2.7	1,238.4
Charge for the year	72.5	0.1	9.0	0.2	81.8
At 31 December 2021	1,225.2	2.3	89.8	2.9	1,320.2
Charge for the year	76.4	0.1	8.5	0.2	85.2
At 31 December 2022	1,301.6	2.4	98.3	3.1	1,405.4
Net book value:					
At 31 December 2021	1,935.5	2.8	26.3	0.5	1,965.1
At 31 December 2022	2,064.5	2.7	23.4	0.3	2,090.9
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 2021	3,009.4	5.1	110.5	3.3	3,128.3
Additions	152.9	-	5.6	0.1	158.6
At 31 December 2021	3,162.3	5.1	116.1	3.4	3,286.9
Additions	205.4	-	5.6	-	211.0
At 31 December 2022	3,367.7	5.1	121.7	3.4	3,497.9
Accumulated depreciation:					
At 1 January 2021	1,153.5	2.2	80.8	2.7	1,239.2
Charge for the year	72.5	0.1	9.0	0.2	81.8
At 31 December 2021	1,226.0	2.3	89.8	2.9	1,321.0
Charge for the year	76.4	0.1	8.5	0.2	85.2
At 31 December 2022	1,302.4	2.4	98.3	3.1	1,406.2
Net book value:					
At 31 December 2021	1,936.3	2.8	26.3	0.5	1,965.9
At 31 December 2022	2,065.3	2.7	23.4	0.3	2,091.7

Infrastructure assets for both Group and Company include amounts in respect of assets under construction of £94.4m (2021 - £104.1m) and asset retirement obligations of £30.9m (2021 - £Nil).

10. Right of Use Assets and Lease Liabilities

Group and Company	Land and Buildings £m	Vehicles £m	Total £m
Cost:			
At 1 January 2021	8.6	9.2	17.8
Additions	0.1	1.6	1.7
Modification of lease terms	(0.3)	-	(0.3)
At 31 December 2021	8.4	10.8	19.2
Additions	5.8	3.3	9.1
Modification of lease terms	-	-	-
Disposals	(0.6)	(2.6)	(3.2)
At 31 December 2022	13.6	11.5	25.1
Accumulated depreciation:			
At 1 January 2021	1.6	4.5	6.1
Charge for the year	0.9	2.2	3.1
At 31 December 2021	2.5	6.7	9.2
Charge for the year	0.8	2.4	3.2
Modification of lease terms	-	-	-
Eliminated on disposals	(0.6)	(2.6)	(3.2)
At 31 December 2022	2.7	6.5	9.2
Net book value:			
At 31 December 2021	5.9	4.1	10.0
At 31 December 2022	10.9	5.0	15.9
Lease Liabilities		2022	2021
		£m	£m
Current		2.8	2.1
Non-current		13.7	8.3
		16.5	10.4
Lease costs include:		2022	2021
		£m	£m
Depreciation on right-of-use assets (note 4)		3.2	3.1
Lease liabilities finance cost (note 6)		0.3	0.3
Expense relating to short-term leases included in operating costs		0.2	0.2
		3.7	3.6

11. Intangible Assets

Computer software – Group and Company

	2022 £m	2021 £m
Cost:		
At 1 January	123.3	116.1
Additions	<u>6.5</u>	<u>7.2</u>
At 31 December	<u>129.8</u>	<u>123.3</u>
Accumulated amortisation:		
At 1 January	104.4	98.3
Amortisation charge for the year	<u>5.3</u>	<u>6.1</u>
At 31 December	<u>109.7</u>	<u>104.4</u>
Net book value:		
At 1 January	<u>18.9</u>	<u>17.8</u>
At 31 December	<u>20.1</u>	<u>18.9</u>

12. Investments

Company – Investment in subsidiaries

	2022 £m	2021 £m
Cost:		
At the beginning and end of the year	<u>7.9</u>	<u>7.9</u>

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

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

The principal activity of NIE Finance PLC is the provision of financing services, being the issuer of the £400m, £350m and £350m bonds which were on-lent to the Company. Further details of the bond issues are included in note 21.

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 2022 is £nil (2021 - £nil).

13. Pension Commitments

Most employees of the Group are members of Northern Ireland Electricity Pension Scheme (NIEPS or the scheme). The scheme has two sections: 'Options' which is a money purchase arrangement whereby the Group generally matches the members' contributions up to a maximum of 8% of salary and 'Focus' which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the scheme are held under trust and invested by the trustees on the advice of professional investment managers. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets and the day-to-day administration of the benefits of the scheme.

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

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

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the scheme was carried out by a qualified actuary as at 31 March 2022 and showed a deficit of £29.0m. The Company is paying deficit contributions of £19.0m per annum (increasing in line with inflation) from 1 April 2020. These deficit repair contributions are due to cease in September 2023. The Company also pays contributions of 43% of pensionable salaries in respect of Focus employees currently employed in the company (active members of the scheme) plus £87,500 monthly expenses, with active members paying a further 6% of pensionable salaries. Effective 1 April 2023, Company contributions in respect of pensionable salaries and monthly expenses will increase to 52.1% and £100,000 respectively.

Profile of the scheme

The net liability includes benefits for current employees, former employees and current pensioners. Broadly, about 15% of the liabilities are attributable to current employees, 3% to former employees and 82% 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 11 years (2021 – 15 years) based on the last funding valuation.

Risks associated with the scheme

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

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

Inflation risk – the majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increases are in place to protect against extreme inflation). While some of the scheme assets are either unaffected by, or only loosely correlated with, inflation, the scheme has an investment strategy to reduce the impact of inflation on the deficit by investing in a liability driven investment policy (see below).

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.

13. Pension Commitments (continued)

Mercer Limited, NIE Networks' actuary, has provided a valuation of Focus under IAS 19 as at 31 December 2022 based on the following assumptions (in nominal terms) and using the projected unit credit method:

	2022	2021
Rate of increase in pensionable salaries (per annum)	3.2%	3.5%
Rate of increase in pensions in payment (per annum)	2.7%	2.8%
Discount rate (per annum)	5.0%	1.8%
Inflation assumption (CPI) (per annum)	2.7%	2.8%
Life expectancy:		
Current pensioners (at age 60) – males	26.4 years	26.7 years
Current pensioners (at age 60) – females	28.9 years	29.0 years
Future pensioners (at age 60) – males	28.3 years	*28.2 years
Future pensioners (at age 60) – females	30.1 years	*30.5 years

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

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

The valuation under IAS 19 at 31 December 2022 shows a net pension asset (before deferred tax) of £52.8m (2021 – net liability £7.1m). 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	
	2022 £m	2021 £m	2022 £m	2021 £m
0.5% change in rate of increase in pensionable salaries	(2.8)	(8.4)	2.8	8.2
0.5% change in rate of pensions in payments	(36.0)	(77.0)	35.1	73.3
0.5% change in annual discount rate	44.1	91.3	(46.2)	(96.7)
0.5% change in annual inflation rate (CPI)	(37.1)	(86.9)	37.5	82.4
1-year change in life expectancy	(14.9)	(49.0)	14.9	49.0

Assets and Liabilities

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

	Value at 31 December 2022 £m	Value at 31 December 2021 £m
Equities – quoted	77.3	101.1
Bonds – quoted	259.6	646.2
Diversified growth funds – quoted	115.3	207.5
Multi-asset credit investments	424.3	291.2
Cash	22.6	15.8
Total market value of assets	899.1	1,261.8
Actuarial value of liabilities	(846.3)	(1,268.9)
Net pension asset/(liability)	52.8	(7.1)

Changes in the market value of assets – Group and Company

	2022 £m	2021 £m
Market value of assets at the beginning of the year	1,261.8	1,204.0
Interest income on scheme assets	22.4	15.4
Contributions from employer	26.4	25.2
Contributions from scheme members	0.2	0.2
Benefits paid	(64.5)	(59.1)
Administration expenses paid	(1.6)	(1.4)
Re-measurement (losses)/gains on scheme assets	(345.6)	77.5
Market value of assets at the end of the year	899.1	1,261.8

13. Pension Commitments (continued)**Changes in the actuarial value of liabilities – Group and Company**

	2022	2021
	£m	£m
Actuarial value of liabilities at the beginning of the year	1,268.9	1,308.9
Interest expense on pension liability	22.3	16.6
Current service cost	6.2	5.9
Curtailement costs	0.3	0.1
Contributions from scheme members	0.2	0.2
Benefits paid	(64.5)	(59.1)
Effect of changes in demographic assumptions	(8.8)	10.7
Effect of changes in financial assumptions	(421.6)	(14.4)
Effect of experience adjustments	43.3	-
	846.3	1,268.9
Actuarial value of liabilities at the end of the year	846.3	1,268.9

The curtailment loss (cost) arising in 2022 and 2021 reflects past service costs associated with employees leaving the company under a restructuring exit arrangement.

The Group expects to make contributions of approximately £21.9m to Focus in 2023.

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 asset/liability.

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

	2022	2021
	£m	£m
Current service cost	6.2	5.9
Administration expenses paid	1.6	1.4
Curtailement costs	0.3	0.1
Total operating charge	8.1	7.4

Focus has been closed to new members since 1998 and therefore under the projected unit credit method the current service cost for members of this section as a percentage of salary will increase as they approach retirement age.

Analysis of the amount charged to net pension scheme interest

	2022	2021
	£m	£m
Interest income on scheme assets	22.4	15.4
Interest expense on liabilities	(22.3)	(16.6)
Net pension scheme interest income/(expense)	0.1	(1.2)

The actual return on Focus assets was a loss of £323.2m for the Group and Company (2021 - gain of £92.9m for the Group and Company).

Analysis of amounts recognised in the Statement of Comprehensive Income

	2022	2021
	£m	£m
Re-measurement (losses)/gains on scheme assets	(345.6)	77.5
Re-measurement gains on scheme liabilities	387.1	3.7
Net gains	41.5	81.2

14. Short-term investments

Group and Company

	2022 £m	2021 £m
Short-term investments	<u>170.0</u>	<u>-</u>

Short-term investments represent amounts placed on deposit with financial institutions for periods of more than three but less than six months for the purpose of earning a return, prior to utilisation of the funds for network activities.

15. Inventories

Group and Company	2022 £m	2021 £m
Materials and consumables	<u>17.5</u>	<u>16.5</u>
	<u>17.5</u>	<u>16.5</u>

Inventories are stated net of a provision of £1.5m (2021: £2.0m).

16. Trade and Other Receivables

Group and Company	2022 £m	2021 £m
Current		
Trade receivables (including unbilled consumption)	46.7	43.1
Loss allowance	<u>(0.7)</u>	<u>(0.9)</u>
Trade receivables (net of provision)	46.0	42.2
Prepayments and accrued income	9.1	7.1
Amounts owed by fellow subsidiary undertakings (note 27)	<u>7.2</u>	<u>6.1</u>
	<u>62.3</u>	<u>55.4</u>

Trade receivables include amounts relating to unbilled consumption of £18.1m (2021 - £17.1m). The largest trade receivable at the year end, due from one customer, is £7.9m (2021 - £7.9m).

Trade receivables include £nil (2021 – £nil) in respect of contract assets arising from contracts with customers.

Trade receivables are stated net of an allowance of £0.7m (2021 - £0.9m) for estimated irrecoverable amounts based on the lifetime expected credit loss of the trade receivable referencing the Group's past default experience. There are no allowances for estimated irrecoverable amounts included in 'Amounts owed by fellow subsidiary undertakings' which consist of £1.2m (2021: £Nil) of unsecured, interest-free and recoverable on demand amounts as well as £6.0m (2021: £6.1m) of balances on normal commercial terms and subject to the credit risk mitigations noted below.

Group and Company	2022 £m	2021 £m
At the beginning of the year	0.9	0.6
Increase in allowance	0.1	0.3
Bad debts written off	<u>(0.3)</u>	<u>-</u>
At the end of the year	<u>0.7</u>	<u>0.9</u>

The allowance of £0.7m (2021 - £0.9m) reflects individual balances impaired based on past default experience.

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

	2022 £m	2021 £m
Current	41.9	38.5
Less than 30 days	0.6	0.7
30 - 60 days	0.2	0.3
60 - 90 days	0.2	1.2
+ 90 days	<u>3.1</u>	<u>1.5</u>
	<u>46.0</u>	<u>42.2</u>

16. Trade and Other Receivables (continued)

The credit quality of trade receivables is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used. The directors consider that the carrying amount of trade and other receivables approximates to fair value.

The Group's credit risk in respect of trade receivables from licensed electricity suppliers is mitigated by appropriate policies with security received in the form of cash deposits, letters of credit or parent company guarantees. Trade receivables are denominated in Sterling (£). With the exception of certain public bodies, payments in relation to new connections or alterations are received in advance of the work being carried out. Payments received on account are disclosed in note 18 to the financial statements. The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables.

17. Cash and Cash Equivalents

Group and Company

	2022 £m	2021 £m
Cash at bank and in hand	11.9	6.8
Short term deposits	66.0	4.0
	<u>77.9</u>	<u>10.8</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are placed for varying periods of between one day and one month depending on the immediate cash requirements of the Group and Company, and earn interest at the respective short-term deposit rates.

The directors consider that the carrying amount of cash and cash equivalents equates to fair value.

18. Trade and Other Payables

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Trade payables	24.9	17.7	24.9	17.7
Payments received on account	19.7	19.6	19.7	19.6
Amounts owed to fellow Group subsidiary undertakings (note 27)	0.1	6.7	0.1	6.7
Amounts owed to Company subsidiary undertakings	-	-	9.2	9.2
Tax and social security	5.3	5.0	5.3	5.0
Accruals	22.7	24.9	22.7	24.9
Other payables	4.9	3.0	4.9	3.0
	<u>77.6</u>	<u>76.9</u>	<u>86.8</u>	<u>86.1</u>

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

19. Deferred Income

Group and Company	Grants £m	Customers' contributions £m	Total £m
Current	0.4	20.9	21.3
Non-current	3.5	515.2	518.7
Total at 1 January 2021	3.9	536.1	540.0
Receivable Released to income statement	- (0.4)	39.0 (19.7)	39.0 (20.1)
Current	0.3	20.8	21.1
Non-current	3.2	534.6	537.8
Total at 31 December 2021	3.5	555.4	558.9
Receivable Released to income statement	- (0.4)	32.9 (20.1)	32.9 (20.5)
Current	0.3	21.1	21.4
Non-current	2.8	547.1	549.9
Total at 31 December 2022	3.1	568.2	571.3

20. Derivative Financial Instruments

Group and Company - Interest rate swaps	2022 £m	2021 £m
Current assets	212.3	21.6
Non-current assets	285.9	583.5
	498.2	605.1
Current liabilities	(212.3)	(21.6)
Non-current liabilities	(285.9)	(583.5)
	(498.2)	(605.1)

The Company has held a £550m portfolio of inflation-linked interest rate swaps (the RPI swaps) since December 2010. The fair value of inflation linked interest rate swaps is affected by relative movements in interest rates and market expectations of future retail price index (RPI) movements.

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

In 2011, following the novation of the swaps to NIE Networks, the Company entered into back-to-back RPI linked interest rate swap arrangements with ESBNI, the immediate parent undertaking of the Company, which had identical matching terms to the swaps. The back-to-back matching swaps with ESBNI ensures that there is no net effect on the financial statements of the Company and that any risk to financial exposure is borne by ESBNI.

During 2021 the Company and its counterparty banks agreed a further restructuring of the swaps, including amendments to certain critical terms. These changes included an extension of the mandatory break period from 2022 to 2025 for the swaps maturing in 2036 and the removal of mandatory breaks for the swaps maturing in 2026 to 2031. It also included amendments to the fixed interest rate element of the swaps and a change to the number of swap counterparties. Future accretion payments are now scheduled to occur every five years commencing in

20. Derivative Financial Instruments (continued)

December 2023, with remaining accretion paid at maturity. In line with the restructuring with the counterparty banks, the Company's back-to-back matching swaps with ESBNI were also restructured to ensure that there is no effect on the financial statements of the Company and that any risk to financial exposure is borne by ESBNI.

Positive mark to market movements on the swap portfolio totalled £106.9m during the year. A rise in forward interest rates £175.8m and semi-annual payments (£19.4m) were offset by a rise in forward inflation rates (£88.1m). Given the back-to-back matching swaps with ESBNI, there is a matching negative fair value movement of (£106.9m) in 2022. Due to the back-to-back arrangements with ESBNI, no net swap interest cost arises on these transactions and therefore they have been netted in finance costs.

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 2022 is considered by the Group and Company to fall within the level 2 fair value hierarchy. The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between level 1 and 3 of the hierarchy during the year.

Independent valuations are used in measuring the interest rate swaps and validated using the present valuation of expected cash flows using a constructed zero-coupon discount curve. The zero-coupon curve uses the interest rate yield curve of the relevant currency. Future cash flows are estimated using expected RPI benchmark levels as well as expected SONIA rate sets.

An increase / (decrease) of 0.5% in interest rates would decrease / (increase) the fair value of interest rate swap liabilities by £28.0m / (£29.4m) (2021 - £43.3m / (£45.8m)). 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 £28.0m / (£29.4m) (2021 - £43.3m / (£45.8m)) 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.

21. Other Financial Liabilities

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Current				
Interest payable on £400m bond (6.375%)	14.8	14.8	-	-
Interest payable on £350m bond (2.500%)	1.6	1.5	-	-
Interest payable on £350m bond (5.875%)	3.4	-	-	-
Interest payable to group undertaking (note 27)	-	0.1	19.8	0.1
Interest payable to subsidiary undertaking	-	-	-	16.3
Amounts owed to group undertaking (note 27)	-	40.0	-	40.0
	19.8	56.4	19.8	56.4
Non-current				
£400m bond (6.375%)	399.3	399.1	-	-
£350m bond (2.500%)	349.2	349.0	-	-
£350m bond (5.875%)	346.0	-	-	-
Amounts owed to subsidiary undertaking	-	-	1,094.5	748.1
	1,094.5	748.1	1,094.5	748.1

Loans and other borrowings outstanding are repayable as follows:

Group and Company	2022 £m	2021 £m
In one year or less or on demand	19.8	56.4
Between two and five years	748.5	748.1
In more than five years	346.0	-
	1,114.3	804.5

Other financial liabilities are held at amortised cost.

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

- the 15 year £400m bond is repayable in 2026 and carries a fixed rate of interest of 6.375% which is payable annually in arrears on 2 June. The bond issue incurred £2.1m of costs associated with raising finance. In back-to-back arrangements, NIE Finance PLC has a loan of £400m with the Company, which was issued net of £2.1m of costs associated with raising finance. Interest is paid on the loan at a fixed rate of 6.375% annually in arrears on 2 June; and
- the 7 year £350m bond is repayable in 2025 and carries a fixed rate of interest of 2.500% which is payable annually in arrears on 27 October. The bond issue incurred £1.9m of costs associated with raising finance. In back-to-back arrangements, NIE Finance PLC has a loan of £350m with the Company, which was issued net of £1.9m of costs associated with raising finance. Interest is paid on the loan at a fixed rate of 2.500% annually in arrears on 27 October.
- the 10 year £350m bond is repayable in 2032 and carries a fixed rate of interest of 5.875% which is payable annually in arrears on 1 December. The bond issue incurred £4.0m of costs associated with raising finance. In back-to-back arrangements, NIE Finance PLC has a loan of £350m with the Company, which was issued net of £4.0m of costs associated with raising finance. Interest is paid on the loan at a fixed rate of 5.875% annually in arrears on 1 December.

The £400m, £350m and £350m bonds, which are listed on the London Stock Exchange's regulated market, had fair values at 31 December 2022 of £428.8m (2021 - £497.6m), £325.4m (2021 - £363.5m) and £361.7m (2021 - N/A) respectively, based on current market prices. The Company's back-to-back loans had a fair value at 31 December 2022 of £428.8m (2022 - £497.6m), £325.4m (2021 - £363.5m) and £361.7m (2021 - N/A) respectively based on the fair value of the £400m, £350m and £350m bonds.

The fair value of bonds as at 31 December 2022 is considered by the Company to fall within the level 1 fair value hierarchy (defined within note 21). There have been no transfers between levels in the hierarchy during the year.

Given that 100% (2021 - 94.9%) of Group and Company borrowings carry fixed interest rates, the Group and Company are not significantly exposed to movements in interest rates during the year.

21. Other Financial Liabilities (continued)

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

Group**At 31 December 2022**

	On demand	Within 1 Year	1 to 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m
£400m bond (including interest payable)	-	25.5	476.5	-	502.0
£350m bond (including interest payable)	-	8.8	367.5	-	376.3
£350m bond (including interest payable)	-	22.3	82.3	452.8	557.4
RCF (including interest payable)	-	-	-	-	-
Trade and other payables	19.7	52.6	-	-	72.3
Interest rate swap liabilities	-	210.5	225.1	136.9	572.5
Lease Liabilities	-	2.8	5.3	8.4	16.5
	19.7	322.5	1,156.7	598.1	2,097.0

At 31 December 2021

	On demand	Within 1 Year	1 to 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m
£400m bond (including interest payable)	-	25.5	502.0	-	527.5
£350m bond (including interest payable)	-	8.8	376.3	-	385.1
RCF (including interest payable)	-	40.0	-	-	40.0
Trade and other payables	19.6	52.3	-	-	71.9
Interest rate swap liabilities	-	21.4	453.5	159.8	634.7
Lease Liabilities	-	2.1	3.8	4.5	10.4
	19.6	150.1	1,335.6	164.3	1,669.6

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

Company**At 31 December 2022**

	On demand	Within 1 Year	1 to 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m
Amounts owed to subsidiary undertaking	-	56.6	926.3	452.8	1,435.7
Trade and other payables	19.7	61.8	-	-	81.5
Interest rate swap liabilities	-	210.5	225.1	136.9	572.5
RCF (including interest payable)	-	-	-	-	-
Lease Liabilities	-	2.8	5.3	8.4	16.5
	19.7	331.7	1,156.7	598.1	2,106.2

At 31 December 2021

	On demand	Within 1 Year	1 to 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m
Amounts owed to subsidiary undertaking	-	34.3	878.3	-	912.6
Trade and other payables	19.6	61.5	-	-	81.1
Interest rate swap liabilities	-	21.4	453.5	159.8	634.7
RCF (including interest payable)	-	40.0	-	-	40.0
Lease Liabilities	-	2.1	3.8	4.5	10.4
	19.6	159.3	1,335.6	164.3	1,678.8

22. Analysis of Net Debt

Group	At 1 January 2022 £m	Cash flow £m	Non- cash movement £m	At 31 December 2022 £m
Cash and cash equivalents	10.8	67.1	-	77.9
Interest payable on £400m bond (6.375%)	(14.8)	25.5	(25.5)	(14.8)
Interest payable on £350m bond (2.500%)	(1.6)	8.8	(8.8)	(1.6)
Interest payable on £350m bond (5.875%)	-	-	(3.4)	(3.4)
Interest payable to group undertaking	(0.1)	1.0	(1.0)	(0.1)
£400m bond (6.375%)	(399.1)	-	(0.2)	(399.3)
£350m bond (2.500%)	(349.0)	-	(0.2)	(349.2)
£350m bond (5.875%)	-	(346.0)	-	(346.0)
Amounts owed to group undertaking	(40.0)	40.0	-	-
Lease liabilities	(10.4)	3.2	(9.4)	(16.6)
	(804.2)	(200.4)	(48.5)	(1,053.1)

Company	At 1 January 2022 £m	Cash flow £m	Non- cash movement £m	At 31 December 2022 £m
Cash and cash equivalents	10.8	67.1	-	77.9
Interest payable to group undertaking	(0.1)	1.0	(1.0)	(0.1)
Interest payable to subsidiary undertaking	(16.4)	34.3	(37.7)	(19.8)
Amounts owed to group undertaking	(40.0)	40.0	-	-
Amounts owed to subsidiary undertaking	(748.1)	(346.0)	(0.4)	(1,094.5)
Lease liabilities	(10.4)	3.2	(9.4)	(16.6)
	(804.2)	(200.4)	(48.5)	(1,053.1)

The tables above exclude short-term investments of £170.0m (2021: £Nil) as they have maturity dates of between three and six months and do not meet the definition of cash and cash equivalents. Further details are included in Note 14.

Group	At 1 January 2021 £m	Cash flow £m	Non- cash movement £m	At 31 December 2021 £m
Cash and cash equivalents	21.5	(10.7)	-	10.8
Interest payable on £400m bond (6.375%)	(14.8)	25.5	(25.5)	(14.8)
Interest payable on £350m bond (2.500%)	(1.6)	8.8	(8.8)	(1.6)
Interest payable to group undertaking	(0.1)	0.3	(0.3)	(0.1)
£400m bond (6.375%)	(399.0)	-	(0.1)	(399.1)
£350m bond (2.500%)	(348.6)	-	(0.4)	(349.0)
Amounts owed to group undertaking	-	(40.0)	-	(40.0)
Lease liabilities	(11.9)	3.3	(1.8)	(10.4)
	(754.5)	(12.8)	(36.9)	(804.2)

Company	At 1 January 2021 £m	Cash flow £m	Non- cash movement £m	At 31 December 2021 £m
Cash and cash equivalents	21.5	(10.7)	-	10.8
Interest payable to group undertaking	(0.1)	0.3	(0.3)	(0.1)
Interest payable to subsidiary undertaking	(16.4)	34.3	(34.3)	(16.4)
Amounts owed to group undertaking	-	(40.0)	-	(40.0)
Amounts owed to subsidiary undertaking	(747.6)	-	(0.5)	(748.1)
Lease liabilities	(11.9)	3.3	(1.8)	(10.4)
	(754.5)	(12.8)	(36.9)	(804.2)

23. Provisions

Group and Company	Environment £m	Asset Retirement Obligation £m	Liability and damage claims £m	Total £m
Current	0.6	-	2.3	2.9
Non-current	1.0	-	2.7	3.7
Total at 1 January 2021	1.6	-	5.0	6.6
Utilised in the year	(0.1)	-	(0.4)	(0.5)
Charged to income statement	-	-	0.8	0.8
Current	0.5	-	2.4	2.9
Non-current	1.0	-	3.0	4.0
Total at 31 December 2021	1.5	-	5.4	6.9
Utilised in the year	(0.3)	-	(1.0)	(1.3)
Increase in provisions	-	30.9	0.2	31.1
Charged to income statement	-	-	-	-
Current	0.2	-	2.3	2.5
Non-current	1.0	30.9	2.3	34.2
Total at 31 December 2022	1.2	30.9	4.6	36.7

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.

Asset Retirement Obligation

The Group provision at 31 December 2022 of £30.9 million (2021: £nil) for asset retirement obligations represents the present value of the current estimate of the costs arising from certain obligations in relation to the retirement and decommissioning of creosote treated wood poles at the end of their useful economic lives. Creosote treated wood poles in the network are expected to be disposed over a period of 40 years. There is significant judgement in estimating the level of provision as operational plans and the cost of disposal may change significantly in the future as a result of environmental legislation or pole condition given the length of time over which they are held. Such changes could materially impact the level of provision required. The Group has made its best estimate of the financial effect of these uncertainties in determining the level of provision required, but future material changes in any of the assumptions could materially impact on the calculation of the provisions. As the costs are provided on a discounted basis, a financing charge will be included in the income statement and credited to the provision each year. The asset retirement provision will be re-examined annually and the liability recalculated in accordance with the most recent expected estimate. Expected future cash flows are discounted to present values using an appropriate pre-tax discount rate.

The table below shows the possible increase / (decrease) in the asset retirement obligation that could result from changes in key assumptions:

	Increase in assumption		Decrease in assumption	
	2022 £m	2021 £m	2022 £m	2021 £m
0.1% change in risk-free rate	(0.9)	-	0.9	-
1.0% increase/decrease in inflation rate	0.2	-	(0.2)	-
One year change in disposal profile	(0.6)	-	1.8	-

23. Provisions (continued)

Liability and damage claims

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

24. Share Capital and Equity

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £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
Retained earnings	481.8	423.9	481.3	423.4
	<u>548.7</u>	<u>490.8</u>	<u>548.2</u>	<u>490.3</u>

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

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

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

Allotted and fully paid share capital:

	2022 £m	2021 £m
145,566,431 ordinary shares of 25p each	<u>36.4</u>	<u>36.4</u>

Dividend

The following dividends were paid by the Company

	2022 £m	2021 £m
25.1 pence per allotted share (2021 – 27.1 pence)	<u>36.6</u>	<u>39.4</u>

25. Commitments and Contingent Liabilities

(i) Capital commitments

At 31 December 2022 the Group and Company had contracted future capital expenditure in respect of property, plant and equipment of £39.2m (2021 - £24.3m) and computer assets of £5.0m (2021 - £5.1m).

(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 23) 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.

26. Financial Commitments

In June 2011, September 2018 and November 2022 NIE Finance PLC, a subsidiary undertaking of the Company, issued £400m, £350m and £350m bonds respectively on behalf of the Company. The Bonds have been admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's regulated market. The payments of all amounts including interest in respect of the £400m, £350m and £350m bonds are unconditionally and irrevocably guaranteed by the Company.

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.

	2022 £m	2021 £m
Salaries and short-term employee benefits	1.6	1.4
Post-employment benefits	0.4	0.3
	<u>2.0</u>	<u>1.7</u>

Parent undertaking and Ultimate controlling party

The immediate parent undertaking of the Group and the ultimate parent company in the UK is ESBNI Limited (ESBNI). The ultimate parent undertaking and controlling party of the Group and the parent of the smallest and largest group of which the Company is a member and for which group financial statements are prepared is Electricity Supply Board (ESB), a statutory corporation established under the Electricity (Supply) Act 1927 domiciled in the Republic of Ireland. A copy of ESB's financial statements is available from ESB's registered office at 27 Fitzwilliam Street Lower, Dublin 2, DO2 KT92, Ireland. A full list of the subsidiary undertakings of ESB is included in its financial statements.

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

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 2022						
ESB	(1.0)	-	-	-	-	-
ESB subsidiaries	-	42.1	(3.8)	(36.6)	7.2	(0.1)
	<u>(1.0)</u>	<u>42.1</u>	<u>(3.8)</u>	<u>(36.6)</u>	<u>7.2</u>	<u>(0.1)</u>
Year ended 31 December 2021						
ESB	(0.3)	-	-	-	-	(40.1)
ESB subsidiaries	-	45.7	(3.0)	(39.4)	6.1	(6.7)
	<u>(0.3)</u>	<u>45.7</u>	<u>(3.0)</u>	<u>(39.4)</u>	<u>6.1</u>	<u>(46.8)</u>

Transactions with ESB Group undertakings are determined on an arm's length basis and outstanding balances with ESB Group undertakings are unsecured, except for those amounts covered by standard commercial risk mitigations as detailed in Note 16. 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 are detailed in note 20.

Other related parties

During the year the Group and Company contributed £36.1m (2021 - £33.3m Group and Company) to NIEPS in respect of Focus and Options employer contributions, including an element of deficit repair contributions in respect of Focus.



www.nienetworks.co.uk