Northern Ireland Electricity Networks

UNAUDITED INTERIM REPORT & CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2024

INVESTORS IN PEOPLE
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INTERIM MANAGEMENT REPORT six months to 30 June 2024

The directors present their interim management report for Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings (the Group) for the six months ended 30 June 2024.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 31 December 2023.

NIE Networks is part of the Electricity Supply Board (ESB), the vertically integrated energy group based in the Republic of Ireland. NIE Networks is an independent business within ESB with its own Board of Directors, management and staff. Directors who held office during the period and to the date of approving this report are: Sir David Sterling (independent non-executive Chair of the Board/independent non-executive Director), Alan Bryce (independent non-executive Director), Keith Jess (independent non-executive Director), Derek Hynes (Managing Director) and Gordon Parkes (Executive Director, People & Culture). On the 4th March 2024 Sir David Sterling replaced Dame Rotha Johnston as independent non-executive Chair of the Board. On the 16th July 2024 Janet McCollum was appointed as an independent non-executive director.

NIE Networks is the owner of the electricity transmission and distribution networks in Northern Ireland and is the electricity distribution network operator, serving around 910,000 customers connected to the network.

The Group's principal activities are:

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

Business Update

Price Control

NIE Networks is regulated by the Northern Ireland Authority for Utility Regulation (the Utility Regulator) and 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 was initially set to apply for the period to 31 March 2024. The Utility Regulator (UR) determined in March 2023 to extend the duration of NIE Networks' current price control (RP6) by one year, moving the end date of the RP6 price control from 31 March 2024 to 31 March 2025. Consequently, the RP7 price control period will be deferred to commence on 1 April 2025 and run to 31 March 2031.

The RP6 price control set ex-ante allowances of £957 million for capital investment and £625 million in respect of operating costs (2023-24 prices). The allowances in respect of major transmission load growth projects are considered on a case-by-case basis, for example, the Coolkeeragh to Magherafelt overhead line refurbishment. 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.

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 was introduced at the start of RP6 and aligns the cost of debt component of the return more closely with prevailing market conditions at the time of drawdown of new debt.

NIE Networks submitted its RP7 business plan to the UR in March 2023. The UR's Draft Determination was published in November 2023 for public consultation. NIE Networks and other stakeholders responded to the consultation in March 2024. The UR is now reviewing the responses to the Draft Determination and is expected to publish its Final Determination in October 2024.

Financial results

Operating Profit and Profit after Tax

NIE Networks' operating profit for the six month period was £76.7m and Profit after interest and tax for the six month period was £40.0m. Profit after interest and tax is £24.8m up on 2023 primarily as a result of higher regulated network revenues which is reflective of NIE Networks' continued investment in key electricity network infrastructure coupled with increases in inflation in the current year and the delayed recovery of higher allowed costs due to inflation from prior years. As a critical electricity infrastructure provider, NIE Networks reinvests profits into the electricity network with capital expenditure of £111.2m for the six month period which is up £12.2m on 2023. This investment is to build and enhance network infrastructure for the benefit of customers, the economy and wider society.

Group operating costs have increased by £10.7m in the six month period primarily as a result of increased staff costs (reflective of recruitment during the previous year) and inflationary pressures on the Company's cost base.

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 expense included in operating profit in the current period is £24.1m (six months to 30 June 2023: net PSO expense £14.7m).

FFO Interest Cover
The ratio of Funds from Operations (FFO) to interest paid during the period increased compared with the prior period at 3.7 times (six months to 30 June 2023: 2.8 times) is above the target level of 3.0 times for June 2024.

Net Assets
The Group's net assets of £593.5m have increased by £22.3m in the six months to 30 June 2024 reflecting profit after tax of £40.0m less re-measurement losses (net of tax) on the pension scheme surplus of £17.7m.

Cash Flow
Cash and cash equivalents decreased by £9.3m in the period reflecting net cash inflows from operating activities of £81.2m, investing activity outflows of £88.9m reflecting the Group's continued investment in the network and financing activity outflows of £1.6m. The Group's Revolving Credit Facility (RCF) remained undrawn during the period.

Going Concern
As stated in note 1 to the condensed interim financial statements, the directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed interim financial statements.

Operations

Key Performance Indicators (KPIs) are used to measure progress towards achieving operational objectives. Performance during the period is summarised below:

KPIs	**Six months ended 30 June**		Year ended 31 December
	2024	2023	2023
Health, Safety and Wellbeing:			
Lost time incidents *(number of)*	**1**	2	7
Investment:			
Total Capital Investment (£m)	**111.2**	99.0	220.0
Network Performance:			
Customer Minutes Lost (CML)			
• Planned CML *(minutes)*	**20**	17	37
• Fault CML *(minutes)*	**21**	21	43
Customer Service:			
Compliance with Guaranteed standards	**99.9%**	99.9%	99.9%
Stage 2 complaints to the Consumer Council	**-**	-	-
Connections:			
Customer demand connections completed including non-recoverable alterations *(number of)*	**2,201**	2,212	4,007
Sustainability:			
Reduction in non-network carbon emissions per employee (versus 2019 baseline)	**14.1%**	27.0%	22.0%
Waste recycling rate	**96.7%**	97.6%	96.8%
Staffing:			
Headcount	**1,582**	1,432	1,506

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 and safety are assessed and controlled. While NIE Networks will continue to strive towards our ambition of zero lost time incidents, there was one lost time incident during the period (2023 – two). The incidents were during low risk activities (not inherent risk) and have been investigated internally.

The Company's "Safer Together – Our Pathway to Zero Harm" journey is a continuing priority for NIE Networks and is an enabling action plan to improve adherence to our safety value, reduce the risk of harm and improve the wellbeing of our staff within the organisation.

The Safer Together journey continues to focus our commitment to our safety value, through promoting an open and proactive safety culture with the full involvement of all. This has been reinforced through strong and visible leadership and the implementation of a series of continued safety improvements through 2023 and 2024. We continue to develop more efficient ways to capture learning from Near Miss Incidents and Site Safety Engagements with the support of technology.

Developing our culture will continue to be a focus throughout 2024 with the expansion of safety leadership coaching and the promotion of employee forums where views can be expressed, solutions co-developed and implemented. Our goal is to ensure that we create an environment where everyone is treated fairly, respectfully and that our people feel safe to raise any concerns that we can all learn from.

Network Performance
The average number of minutes lost per consumer through pre-arranged shutdowns for maintenance and construction (Planned CML) has increased compared with the same period last year from 17 to 20 minutes reflecting the increased network capital investment and construction. CML through distribution fault interruptions (Fault CML) is consistent with the same period as last year at 21 minutes.

Customer Service
There continues to be a strong focus on customer service by providing a reliable and effective electricity service for Northern Ireland and an excellent experience for customers engaging with the business. The Utility Regulator sets standards for NIE Networks' performance. The standards 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. There was 99.9% compliance against the guaranteed standards for customer service activities during the first six months of 2024 (2023: 99.9%). The majority of defaults related to the late provision of quotations for new connections and missed metering appointments.

There have been no Stage 2 complaints, upheld by the Consumer Council (2023: nil).

Connections
The number of customer demand connections completed during the six months to June 2024 has remained largely in line with the same period in the previous year.

Significant elements of the market for new connections have been open to competition since March 2018. In April 2023 this was extended further whereby Independent Connection Providers (ICPs) were granted the ability to apply to become accredited to deliver final connections at low voltage levels on the distribution network. To date there has been limited uptake from ICPs within the contestability market however NIE Networks will continue to monitor activity and ensure the Northern Ireland market remains open to competition.

The latest statistics from the Department for the Economy show that 45.4% of electricity consumption within Northern Ireland was generated from renewable sources for the twelve months to 31 March 2024, a decrease of 3.0% from the previous 12 month period. This renewable generation has been supported by the connection of approximately 1.8GW of renewable capacity to the network by NIE Networks to date, with a further 0.6GW of capacity committed to be connected within the next few years. Further applications for renewable generation connections to the network continue to be received by NIE Networks, which support moving towards the target of 80% of electricity consumption from renewable sources by 2030, as legislated for in the Climate Change Act (Northern Ireland) 2022.

Sustainability
NIE Networks has reduced its non-network carbon emissions by 14.1% (normalised by headcount) during the current period against the 2019 baseline year (2023: 27.0%). This includes Scope 1 (Includes buildings, vehicles and SF6 gas), Scope 2 (electricity used) and Scope 3 (Business Travel and Waste) emissions. This new carbon intensity metric was introduced for 2024 to better reflect more efficient carbon use during a growth phase of the organisation, and includes emissions from both SF6 gas and waste that were not included in the previous metric used. Carbon emissions intensity is recognised by the Greenhouse Gas Protocol and the Streamlined Energy and Carbon Reporting (SECR) mandatory disclosures that NIE Networks reports on annually in its annual report. The carbon emissions reductions achieved in the current period have been from a range of measures including continuing with energy efficiency measures in office locations following completion of office consolidation. However, there has been an increase in fleet fuel usage over the period to help deliver our growing work programme. Carbon emissions reduction in this period has also been impacted by SF6 gas leakage and subsequent repairs which has resulted in slower improvements.

The recycling rate for all hazardous and non-hazardous waste (excluding excavated material from roads and footpaths, civil projects excavation and asbestos removal) continued at a high level with 96.7% of waste recycled during the current period (2023: 97.6%).

Staffing

We have held Investors in People Gold accreditation since 2014. Following our latest assessment in the first half of 2024, we were accredited at Investors in People Platinum level which is a significant external recognition for us as a company. We have achieved this as a result of the dedication, commitment, knowledge and skills of all our employees across the company. Platinum accreditation is held by only 6% of the 55,000 organisations accredited worldwide and 3% of organisations within Northern Ireland.

Central to NIE Networks' people strategy is the recruitment, development, training and retention of highly skilled employees, working in partnership with bought-in-services as appropriate to deliver core strategic objectives. 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 2024 has been essential in attracting new talent and retaining our highly skilled employees while ensuring we all can operate effectively while also responding positively to the challenges and opportunities for employees at all levels.

Against the challenges of delivering the increasing outputs and capital investment required in the RP6 price control within regulated cost allowances, 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. There has been significant recruitment throughout 2024 across a diverse range of skilled & professional roles.

The number of employees at the end of June 2024 was 1,582 (June 2023 – 1,432)

Principal Risks and Uncertainties

The principal risks and uncertainties facing NIE Networks for the remainder of the financial year, which are managed under NIE Networks' risk management framework, are as set out in the Group's latest annual report for the year to 31 December 2023 which is available at www.nienetworks.co.uk.

Related parties

Related party disclosures are given in note 9.

CONDENSED GROUP INCOME STATEMENT

	Note	Six months ended 30 June 2024 Unaudited £m	Six months ended 30 June 2023 Unaudited £m	Year ended 31 December 2023 Audited £m
Revenue	2	**188.4**	143.6	339.6
Operating costs		**(111.7)**	(101.0)	(204.4)
OPERATING PROFIT		**76.7**	42.6	135.2
Finance revenue		**4.5**	5.3	10.6
Finance costs		**(28.8)**	(29.1)	(57.5)
Net pension scheme interest		**1.6**	1.5	3.2
Net finance costs		**(22.7)**	(22.3)	(43.7)
PROFIT BEFORE TAX		**54.0**	20.3	91.5
Tax charge	3	**(14.0)**	(5.1)	(22.4)
PROFIT FOR THE PERIOD / YEAR		**40.0**	15.2	69.1

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2024 Unaudited £m	Six months ended 30 June 2023 Unaudited £m	Year ended 31 December 2023 Audited £m
Profit for the financial period / year	**40.0**	15.2	69.1
Other comprehensive expense			
Items not to be reclassified to profit or loss in subsequent periods:			
Re-measurement loss on pension scheme assets and liabilities	**(23.6)**	(22.4)	(8.1)
Deferred tax credit relating to components of other comprehensive income	**5.9**	5.6	2.0
Net other comprehensive expense for the period / year	**(17.7)**	(16.8)	(6.1)
Total net comprehensive income/(expense)for the period / year	**22.3**	(1.6)	63.0

CONDENSED GROUP BALANCE SHEET

	Note	As at 30 June 2024 Unaudited £m	As at 30 June 2023 Unaudited £m	As at 31 December 2023 Audited £m
Non-current assets				
Property, plant and equipment	4	**2,261.9**	2,140.1	2,209.8
Intangible assets	4	**23.7**	20.2	21.8
Right of use assets	4	**15.9**	17.3	15.9
Derivative financial assets	6	**278.3**	275.1	293.8
Pension asset	8	**46.0**	43.8	66.7
		2,625.8	2,496.5	2,608.0
Current assets				
Short-term investments		**-**	122.5	-
Inventories		**26.1**	18.3	22.1
Trade and other receivables		**62.9**	53.6	77.7
Current tax asset		**6.1**	-	-
Derivative financial assets	6	**0.8**	220.6	3.5
Cash and cash equivalents		**142.7**	93.9	152.0
		238.6	508.9	255.3
TOTAL ASSETS		**2,864.4**	3,005.4	2,863.3
Current liabilities				
Trade and other payables		**95.9**	77.5	98.8
Deferred income		**22.8**	21.8	22.0
Financial liabilities:				
Derivative financial liabilities	6	**0.8**	220.6	3.5
Lease financial liabilities	6, 7	**2.3**	2.8	2.5
Other financial liabilities	6, 7	**19.8**	21.5	18.1
Provisions		**2.0**	1.9	1.9
		143.6	346.1	146.8
Non-current liabilities				
Deferred tax liabilities		**141.6**	139.6	146.6
Deferred income		**571.5**	554.0	562.3
Financial liabilities:				
Derivative financial liabilities	6	**278.3**	275.1	293.8
Lease financial liabilities	6, 7	**14.7**	15.4	14.4
Other financial liabilities	6, 7	**1,095.6**	1,094.8	1,095.3
Provisions		**25.6**	33.3	32.9
		2,127.3	2,112.2	2,145.3
TOTAL LIABILITIES		**2,270.9**	2,458.3	2,292.1
NET ASSETS		**593.5**	547.1	571.2
Equity				
Share capital		**36.4**	36.4	36.4
Share premium		**24.4**	24.4	24.4
Capital redemption reserve		**6.1**	6.1	6.1
Retained earnings		**526.6**	480.2	504.3
TOTAL EQUITY		**593.5**	547.1	571.2

CONDENSED GROUP BALANCE SHEET

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

Derek Hynes
Director

3 September 2024

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 January 2023	**36.4**	**24.4**	**6.1**	**481.8**	**548.7**
Profit for the year	-	-	-	69.1	**69.1**
Net other comprehensive expense for the year	-	-	-	(6.1)	**(6.1)**
Total net comprehensive income for the year	-	-	-	63.0	**63.0**
Dividends to the shareholder	-	-	-	(40.5)	**(40.5)**
At 1 January 2024	**36.4**	**24.4**	**6.1**	**504.3**	**571.2**
Profit for the period	-	-	-	40.0	**40.0**
Net other comprehensive expense for the period	-	-	-	(17.7)	**(17.7)**
Total net comprehensive income for the period	-	-	-	22.3	**22.3**
At 30 June 2024	**36.4**	**24.4**	**6.1**	**526.6**	**593.5**

	Share Capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 January 2023	**36.4**	**24.4**	**6.1**	**481.8**	**548.7**
Profit for the period	-	-	-	15.2	15.2
Net other comprehensive expense for the period	-	-	-	(16.8)	(16.8)
Total net comprehensive expense for the period	-	-	-	(1.6)	(1.6)
At 30 June 2023	**36.4**	**24.4**	**6.1**	**480.2**	**547.1**

CONDENSED GROUP CASH FLOW STATEMENT

	Six months ended 30 June 2024 Unaudited £m	Six months ended 30 June 2023 Unaudited £m	Year ended 31 December 2023 Audited £m
Cash flows from operating activities			
Profit for the period/year	**40.0**	**15.2**	**69.1**
Adjustments for:			
Tax charge	**14.0**	**5.1**	**22.4**
Net finance costs	**22.7**	**22.3**	**43.7**
Depreciation of property, plant and equipment	**46.6**	**44.7**	**90.4**
Depreciation of right of use assets	**1.7**	**1.7**	**3.3**
Release of customers' contributions and grants	**(10.8)**	**(10.4)**	**(21.3)**
Amortisation of intangible assets	**2.7**	**2.3**	**4.9**
Defined benefit pension charge less contributions paid	**(1.2)**	**(12.0)**	**(18.9)**
Net movement in provisions	**(0.2)**	**(2.6)**	**-**
Operating cash flows before movement in working capital	**115.5**	**66.3**	**193.6**
Decrease/(increase) in working capital	**0.5**	**2.3**	**(21.4)**
Cash generated from operations	**116.0**	**68.6**	**172.2**
Interest received	**4.5**	**5.3**	**10.9**
Interest paid	**(25.6)**	**(25.6)**	**(56.9)**
Lease interest paid	**(0.4)**	**(0.3)**	**(0.5)**
Current taxes paid	**(13.3)**	**-**	**-**
Net cash flows from operating activities	**81.2**	**48.0**	**125.7**
Cash flows used in investing activities			
Purchase of property, plant and equipment	**(105.1)**	**(90.6)**	**(205.8)**
Customers' cash contributions	**20.9**	**14.9**	**34.3**
Purchase of intangible assets	**(4.7)**	**(2.4)**	**(6.6)**
Short-term investments	**-**	**47.5**	**170.0**
Net cash flows used in investing activities	**(88.9)**	**(30.6)**	**(8.1)**
Cash flows used in financing activities			
Dividends paid to shareholder	**-**	**-**	**(40.5)**
Payments in respect of lease liabilities	**(1.6)**	**(1.4)**	**(3.0)**
Net cash flows used in financing activities	**(1.6)**	**(1.4)**	**(43.5)**
Net (decrease)/increase in cash and cash equivalents	**(9.3)**	**16.0**	**74.1**
Cash and cash equivalents at beginning of period/year	**152.0**	**77.9**	**77.9**
Cash and cash equivalents at end of period / year	**142.7**	**93.9**	**152.0**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, short-term bank deposits with maturities of 90 days or less and bank overdrafts. Short-term investments, while predominantly in the form of bank deposits, are excluded from cash and cash equivalents as their maturities are in excess of 90 days.

1. Basis of Preparation

The condensed interim financial statements for the period ended 30 June 2024 have been prepared in accordance with the UK-adopted International Accounting Standard (IAS) 34 “Interim Financial Reporting” and the Disclosure Guidance and Transparency Rules sourcebook of the UK’s Financial Conduct Authority.

The condensed interim financial statements consolidate the results of Northern Ireland Electricity Networks Limited (NIE Networks or the Company) and its subsidiary undertakings, NIE Networks Services Limited and NIE Finance PLC (the Group).

The condensed interim financial statements have been prepared on the basis of the accounting policies set out in the financial statements for the year ended 31 December 2023.

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 at least 12 months from the date of approval of the condensed interim financial statements, along with the assessment of plausible potential downside sensitivities, the directors have a reasonable expectation that the Group will have adequate financial resources for the 12-month period and continue to adopt the going concern basis in preparing the condensed interim financial statements.

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

The condensed interim financial statements for the period ended 30 June 2024 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006. The report of the auditors on the financial statements contained within the Group's annual report for the year ended 31 December 2023 was unmodified and did not contain a statement under either Section 498(2) or Section 498(3) of the Companies Act 2006 regarding inadequate accounting records or a failure to obtain necessary information and explanations. This report should be read in conjunction with the annual report for the year ended 31 December 2023.

New and revised accounting standards, amendments and interpretations not yet adopted
No new standards, amendments or interpretations, effective for the first time during the period, have had a material impact on these condensed interim financial statements.

A number of new amendments to standards and interpretations are effective for annual periods beginning after 1 January 2024 and have not been applied in preparing these condensed interim financial statements. None of these are expected to have a significant effect on the financial statements of the Group.

2. Revenue

	Six months ended 30 June 2024 Unaudited £m	Six months ended 30 June 2023 Unaudited £m	Year ended 31 December 2023 Audited £m
Revenue:			
Sales revenue	**177.7**	133.4	318.5
Amortisation of customer contributions from deferred income	**10.7**	10.2	21.1
	188.4	143.6	339.6

The Group's operating activities, which are described in the interim management report, comprise one operating segment. Sales revenue consists largely of income from regulated tariffs.

3. Tax Charge

	Six months ended 30 June 2024 Unaudited £m	Six months ended 30 June 2023 Unaudited £m	Year ended 31 December 2023 Audited £m
Current tax charge			
UK corporation tax at 25.0% (2023 – 22.0%)	**13.2**	2.2	15.9
Total current tax	**13.2**	2.2	15.9
Deferred tax charge			
Origination and reversal of temporary differences in current period	**0.8**	2.9	6.4
Origination and reversal of timing differences relating to prior years	-	-	0.1
Total deferred tax charge	**0.8**	2.9	6.5
Total tax charge	**14.0**	5.1	22.4

4. Capital Additions

	Six months ended 30 June 2024 Unaudited £m	Six months ended 30 June 2023 Unaudited £m	Year ended 31 December 2023 Audited £m
Property, plant and equipment	**106.5**	96.6	213.4
Intangibles assets - computer software	**4.7**	2.4	6.6
Right of use assets	**1.7**	3.1	4.6
	112.9	102.1	224.6

Depreciation and amortisation of £51.0m (30 June 2023 - £48.7m) was charged in the period.

5. Capital Commitments and Contingent Liabilities

(i) Capital Commitments

At 30 June 2024, the Group had contracted future capital expenditure in respect of property, plant and equipment of £52.8m (June 2023 - £40.3m) and computer software assets of £3.2m (June 2023 - £4.5m).

(ii) Contingent Liabilities

In the normal course of business, the Group has contingent liabilities arising from claims made by third parties and employees. Provision for a liability is made 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 period end.

6. Financial Instruments

An overview of financial instruments, other than cash, short-term deposits, prepayments and tax and social security costs held by the Group as at 30 June 2024 is as follows:

As at 30 June 2024 **Financial assets:**	**Held at amortised cost Unaudited £m**	**Fair value profit or loss Unaudited £m**
Trade and other receivables	63.7	-
Interest rate swaps	-	278.3
Total current	**63.7**	**278.3**
Interest rate swaps	-	0.8
Total non-current	-	0.8
Total financial assets	**63.7**	**279.1**
Financial liabilities:		
Trade and other payables	90.0	-
Interest rate swaps	-	0.8
Lease liabilities	2.3	-
Interest bearing loans and borrowings	19.8	-
Total current	**112.1**	**0.8**
Interest rate swaps	-	278.3
Lease liabilities	14.7	-
Interest bearing loans and borrowings	1,095.6	-
Total non-current	**1,110.3**	**278.3**
Total financial liabilities	**1,222.4**	**279.1**

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

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

6. Financial Instruments (continued)

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 Limited, the immediate parent undertaking of the Company, which had identical matching terms to the swaps. The back-to-back matching swaps with ESBNI Limited 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 Limited.

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 from 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 Limited 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 Limited.

Positive fair value movements (including interest and finance charges) of £18.1m arose on the swaps in the six months ended 30 June 2024 (June 2023: negative fair value movements of £0.4m) and were recognised within finance costs in the Income Statement, as hedge accounting was not available. Given the back-to-back arrangements with ESBNI Limited, there is a matching negative fair value movement of £18.1m in the period (June 2023: matching positive fair value movements of £0.4m).

In the six months to June 2024, the Company made swap interest payments of £0.1m (2023: £2.9m). Due to the back-to-back arrangements with ESBNI Limited, the Company had matching swap interest receipts of £0.1m (2023: £2.9m). 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 30 June 2024 is considered by the Company to fall within the level 2 fair value hierarchy. The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between level 1 or 3 of the hierarchy during the period.

7. Net Debt

	30 June 2024 Unaudited £m	30 June 2023 Unaudited £m	31 December 2023 Audited £m
Cash at bank and in hand	**142.7**	93.9	152.0
Debt due before 1 year:			
Interest payable on £350m bond (2.500%)	**(5.9)**	(5.9)	(1.6)
Interest payable on £400m bond (6.375%)	**(2.0)**	(2.0)	(14.8)
Interest payable on £350m bond (5.875%)	**(11.9)**	(13.6)	(1.7)
Interest payable to parent undertaking	**-**	-	-
Lease liability	**(2.3)**	(2.8)	(2.5)
	(22.1)	(24.3)	131.4
Debt due after 1 year:			
£350m bond (2.500%)	**(349.6)**	(349.3)	(349.5)
£400m bond (6.375%)	**(399.6)**	(399.4)	(399.5)
£350m bond (5.875%)	**(346.4)**	(346.1)	(346.3)
Lease liability	**(14.7)**	(15.4)	(14.4)
	(1,110.3)	(1,110.2)	(1,109.7)
Total net debt	**(989.7)**	(1,040.6)	(978.3)

The tables above exclude short-term investments of £nil (June 2023: £122.5m; December 2023: £nil as they have maturity dates of between 91 days and 180 days and do not meet the definition of cash and cash equivalents

8. Pension Commitments

Most employees of the Group are members of the 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.

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.

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.

	30 June 2024 Unaudited £m	30 June 2023 Unaudited £m	31 December 2023 Audited £m
Market value of assets	**874.8**	868.6	921.2
Actuarial value of liabilities	**(828.8)**	(824.8)	(854.5)
Net pension asset	**46.0**	43.8	66.7

Changes in the market value of assets

	30 June 2024 Unaudited £m	30 June 2023 Unaudited £m	31 December 2023 Audited £m
Market value of assets at beginning of the period / year	**921.2**	899.1	899.1
Interest income on scheme assets	**21.8**	22.3	44.0
Contributions from employer	**3.4**	14.4	23.4
Contributions from scheme members	**0.1**	0.1	0.3
Benefits paid	**(32.0)**	(29.3)	(61.0)
Administration expenses paid	**(0.7)**	(0.8)	(1.3)
Re-measurement (losses)/gains on scheme assets	**(39.0)**	(37.2)	16.7
Market value of assets at end of the period / year	**874.8**	868.6	921.2

8. Pension Commitments (continued)

Changes in the actuarial value of liabilities

	30 June 2024 Unaudited £m	30 June 2023 Unaudited £m	31 December 2023 Audited £m
Actuarial value of liabilities at beginning of the period / year	**854.5**	846.3	846.3
Interest expense on pension liability	**20.1**	20.8	40.8
Current service cost	**1.5**	1.6	3.0
Curtailment costs	**0.1**	0.1	0.2
Contributions from scheme members	**0.1**	0.1	0.3
Benefits paid	**(32.0)**	(29.3)	(61.0)
Effect of changes in financial assumptions	**(19.1)**	(28.6)	17.3
Effect of experience adjustments	**3.6**	13.8	7.6
Actuarial value of liabilities at end of the period / year	**828.8**	824.8	854.5

9. Related Party Transactions

The immediate parent undertaking of the Group and the ultimate parent company in the UK is ESBNI Limited (ESBNI). The ultimate parent undertaking and controlling party of the Group and the parent of the smallest and largest group of which NIE Networks 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.

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

	Interest charges Unaudited £m	**Revenue from related party Unaudited £m**	**Charges from related party Unaudited £m**	**Amounts owed by related party at period end Unaudited £m**	**Amounts owed to related party at period end Unaudited £m**
Six months ended 30 June 2024					
ESB	**(0.1)**	**-**	**-**	**-**	**-**
ESB subsidiaries	**-**	**23.7**	**(2.1)**	**5.8**	**-**
	(0.1)	**23.7**	**(2.1)**	**5.8**	**-**
Six months ended 30 June 2023					
ESB	(0.1)	-	-	-	-
ESB subsidiaries	-	22.5	(1.9)	9.7	(0.1)
	(0.1)	22.5	(1.9)	9.7	(0.1)

During the period ended 30 June 2024, the Group contributed £10.9m (2023 - £20.3m) to the Northern Ireland Electricity Pension Scheme in respect of Focus and Options employer contributions, including an element of deficit repair contributions in respect of Focus.

10. Events since the Balance Sheet Date

There are no post balance sheet events which the directors believe required adjustment to, or disclosure in, the financial statements.

Each of the directors, named on page 1, confirms that to the best of their knowledge:

(i) the condensed interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" and give a true and fair view of the assets, liabilities, financial position and profit of the Group for the six months to 30 June 2024; and

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

By order of the Board

Derek Hynes
Director

3 September 2024

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