Northern Ireland Electricity Networks

UNAUDITED INTERIM REPORT & FINANCIAL STATEMENTS

Six months ended 30 June 2020

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INTERIM MANAGEMENT REPORT six months to 30 June 2020

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 2020.

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. On 3 March 2020, Stephen Kingon retired as Chair of the Board following nine years of service and on 4 March 2020 Dame Rotha Johnston was appointed Chair. The other directors, who continued to hold office during the period and to the date of approving this report are: Alan Bryce (non-executive Director), Keith Jess (non-executive Director), Paul Stapleton (Managing Director) and Gordon Parkes (Human Resources 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 880,000 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 will apply for the period to 31 March 2024.

The RP6 price control sets ex-ante allowances of £735 million for capital investment and £481 million in respect of operating costs (2019-20 prices). The allowances in respect of major transmission load growth projects will be considered on a case-by-case basis, for example, the North-South Interconnector. The allowances will be adjusted to reflect 50% of the difference between the allowances and actual costs incurred. NIE Networks' Connections business is largely outside the scope of the RP6 price control following the introduction of contestability.

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

Covid-19

The ongoing Covid-19 pandemic has impacted on NIE Networks' operations since mid-March 2020, with the company's Crisis Management Team and Executive Committee co-ordinating the response and implementing the business continuity and emergency response plans.

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

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

In response to Government restrictions, the Company ceased all non-essential works on the network and made arrangements for the majority of office based staff to work from home. The Company maintained critical operations during the most significant Covid-19 restrictions and has now updated its standard operating procedures and adapted its work sites to facilitate the safety of all staff whether working at field sites, NIE Networks' premises or at home. Through this the Company continued to support its customers and provide a reliable electricity service.

In addition to maintaining core services, a significant number of staff participated in a range of volunteering activities to support local communities during the pandemic including making visors and scrubs for residential care home workers, delivering prescriptions and proactively calling vulnerable customers on NIE Networks' critical care register.

This interim management report reflects the financial impact of the pandemic for the period to 30 June 2020, primarily the reduction in electricity demand in the period as well as the cessation of non-essential works which resulted in lower activity on the Company's capital work programmes during the period. Management continues to monitor the ongoing impact of the pandemic and has taken steps to mitigate the operational and financial impacts on the Company.

Financial results

Operating Profit

The Group's operating profit for the six month period increased from £56.4m to £67.9m. Group revenue of £155.8m has increased by £16.1m reflecting an £8.0m increase in Distribution Use of System revenue – primarily reflecting an increase in the Group's investment in its Regulated Asset Base – and an increase in revenues associated with the Public Service Obligation (PSO) of £8.1m. Group operating costs of £87.9m have increased by £4.6m, predominantly due to additional operational costs and a lower capital programme of works as a result of the Covid-19 pandemic.

PSO revenue allows NIE Networks to recover the net cost of supporting industry programmes such as the Northern Ireland Sustainable Energy Programme. PSO revenue is earned over time in line with the use of system by suppliers under the schedule of entitlement set by the Utility Regulator for each tariff period. Over time PSO related income and costs net to nil, albeit there are timing differences between the receipt of revenue and payment of costs. The net PSO income included in operating profit in the current period is £11.2m (2019: £2.0m).

Tax Charge

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

FFO Interest Cover

The ratio of FFO (funds from operations) to interest paid increased to 3.5 times for the period (six months to 30 June 2019 - 3.2 times[1]), reflecting an increase in funds from operations during the period.

Net Assets

The Group's net assets of £361.1m have decreased by £29.6m in the six months to 30 June 2020 reflecting re-measurement losses (net of tax) on pension scheme liabilities of £57.7m offset by profit after tax of £28.1m.

Cash Flow

Cash and cash equivalents increased by £21.4m in the period reflecting net cash flows from operating activities of £74.4m partly offset by investing activity out flows of £46.6m, reflecting the Group's continued investment in the network, and financing activity outflows of £6.4m. The Group's Revolving Credit Facility (RCF) was fully repaid in the period.

[1] FFO interest cover at 30 June 2019 has been restated in line with changes in credit rating methodology.

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
	2020	2019	2019
Safety:			
Lost time incidents	**None**	None	3
Network Performance:			
Customer Minutes Lost (CML)			
• Planned CML *(minutes)*	**12**	22	45
• Fault CML *(minutes)*	**22**	20	38
Customer Service:			
Overall standards – failures *(number of)*	**None**	None	None
Guaranteed standards – defaults *(number of)*	**None**	None	None
Stage 2 complaints to the Consumer Council	**None**	1	2
Connections:			
Customer demand connections completed including non-recoverable alterations *(number of)*	**1,829**	2,325	4,699
Sustainability:			
Reduction in non-network carbon emissions[2]	**18.7%**	N/A	N/A
Waste recycling rate *(%)*	**97**	98	98
Staffing:			
Headcount (at 30 June/31 December)	**1,202**	1,211	1,216
Absenteeism *(%)*	**3.11%**	2.60%	3.27%

Safety
Ensuring the safety of employees, contractors and the general public continued to be the number one value at the core of all NIE Networks' business operations. The aim is to provide a zero harm working environment where risks to health and safety are assessed and controlled. There were no lost time incidents during the period (2019 – None).

Regrettably, subsequent to the period end, we have had a fatality on our network involving one of our colleagues, Richard Scott. The circumstances of the incident are being investigated both by the Health and Safety Executive for Northern Ireland and internally. The learnings from these investigations will be incorporated into the Group's operations as part of our ongoing commitment to providing a zero harm working environment.

Network Performance
The average number of minutes lost per consumer through pre-arranged shutdowns for maintenance and construction (Planned CML) fell from 22 to 12 minutes in comparison with the same period last year, primarily due to reduced work programmes as a result of Covid-19 restrictions. CML through distribution fault interruptions (Fault CML) increased from 20 to 22 in the period.

Customer Service
The Utility Regulator sets overall and guaranteed standards for NIE Networks' performance. All the overall standards were achieved and there were no defaults against the guaranteed standards for customer services activities delivered during the period (2019 – none). No Stage 2 complaints were taken up by the Consumer Council during the period (2019 – one).

[2] New KPI for 2020 and therefore no comparative figures are included for the prior period/year.

Connections
The number of customer demand connections completed during the period reduced compared with the prior period, reflecting the impact of Covid-19 on the ability to deliver work.

A significant milestone in Northern Ireland's energy history was reached during 2019 when the long term target of '40% of electricity consumption being produced from renewable sources by 2020' was achieved. The latest statistics show that nearly 48% of annual electricity consumption in Northern Ireland for the twelve months to 30 June 2020 was generated from renewable sources. This has been supported through the connection of approximately 1.7GW of renewable capacity to the network by NIE Networks and with a further 0.3GW capacity committed to be connected, the total connected renewable capacity is expected to reach nearly 2.0 GW by 2022.

NIE Networks has continued to participate in the Connections Innovation Working Group with industry stakeholders. In parallel, the Company is working with the System Operator for Northern Ireland (SONI) and other industry stakeholders to develop an enduring connections process that will maximise the ability of Northern Ireland to achieve its ambitious renewable energy target.

Sustainability
In 2019, NIE Networks adopted the European Distribution System Operators' (E.DSO) Sustainable Grid Charter as a statement of intention in relation to NIE Networks' commitment to sustainability in respect of climate change and wider environmental and societal impacts.

The Company has reduced its non-network carbon emissions by 18.7% during the current period through a range of measures including improving the energy efficiency of work locations and increasing the use of technology to reduce the need for business travel. The reduction in activity due to Covid-19 restrictions together with an increase in the number of staff working from home during the pandemic has been a significant factor in achieving this level of reduction in non-network emissions.

The recycling rate for all hazardous and non-hazardous waste (excluding excavation from roads and footpaths, civil projects excavation and asbestos removal) continued at a high level with 97% of waste recycled during the period.

Staffing
The total number of staff employed by the Company remained broadly consistent with the prior period. Absenteeism levels have increased from 2.60% to 3.11% owing primarily to long-term sickness absences.

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 2019 which is available at www.nienetworks.co.uk.

A review of the principal risks has identified a number of areas where the impact of the Covid-19 pandemic results in an elevated risk profile. Mitigation plans have been reviewed and updated and will continue to be closely monitored.

GROUP INCOME STATEMENT

	Note	Six months ended 30 June 2020 Unaudited £m	2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Revenue	2	**155.8**	139.7	276.3
Operating costs		**(87.9)**	(83.3)	(166.0)
OPERATING PROFIT		**67.9**	56.4	110.3
Finance costs		**(17.5)**	(17.3)	(35.0)
Net pension scheme interest		**(1.0)**	(1.3)	(2.4)
Net finance costs		**(18.5)**	(18.6)	(37.4)
PROFIT BEFORE TAX		**49.4**	37.8	72.9
Tax charge	3	**(21.3)**	(7.2)	(13.8)
PROFIT FOR THE PERIOD / YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**28.1**	30.6	59.1

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2020 Unaudited £m	2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Profit for the financial period / year	**28.1**	30.6	59.1
Other comprehensive (expense) / income:			
Re-measurement (losses) on pension scheme assets and liabilities	**(75.3)**	(10.8)	(22.1)
Deferred tax credit relating to components of other comprehensive income	**14.3**	1.8	3.8
Change in deferred tax rate	**3.3**	-	-
Net other comprehensive (expense) for the period / year	**(57.7)**	(9.0)	(18.3)
Total net comprehensive (expense) / income for the period / year	**(29.6)**	21.6	40.8

GROUP BALANCE SHEET

	Note	As at 30 June 2020 Unaudited £m	2019 Unaudited £m	As at 31 December 2019 Audited £m
Non-current assets				
Property, plant and equipment	4	**1,862.2**	1,819.3	1,849.3
Intangible assets	4	**18.0**	20.2	19.4
Right of use leased assets	4	**12.0**	11.3	11.9
Derivative financial assets	6	**530.6**	522.7	492.2
		2,422.8	2,373.5	2,372.8
Current assets				
Inventories		**17.3**	13.1	14.8
Trade and other receivables		**47.9**	42.8	53.3
Current tax asset		**1.9**	0.6	1.9
Derivative financial assets	6	**17.0**	14.0	14.4
Cash and cash equivalents		**30.4**	35.5	9.0
		114.5	106.0	93.4
TOTAL ASSETS		**2,537.3**	2,479.5	2,466.2
Current liabilities				
Trade and other payables		**79.0**	64.9	71.0
Current tax payable		**2.8**	1.7	-
Deferred income		**19.2**	18.6	19.1
Financial liabilities:				
Derivative financial liabilities	6	**17.0**	14.0	14.4
Lease financial liabilities	6, 7	**2.7**	2.5	2.8
Other financial liabilities	6, 7	**7.9**	8.6	21.4
Provisions		**3.3**	3.3	3.4
		131.9	113.6	132.1
Non-current liabilities				
Deferred tax liabilities		**66.2**	71.4	71.2
Deferred income		**516.5**	515.8	516.0
Financial liabilities:				
Derivative financial liabilities	6	**530.6**	522.7	492.2
Lease financial liabilities	6, 7	**9.4**	9.1	9.1
Other financial liabilities	6, 7	**747.4**	747.0	747.2
Provisions		**3.7**	4.1	3.8
Pension liability	8	**170.5**	100.6	103.9
		2,044.3	1,970.7	1,943.4
TOTAL LIABILITIES		**2,176.2**	2,084.3	2,075.5
NET ASSETS		**361.1**	395.2	390.7
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
Accumulated profits		**294.2**	328.3	323.8
TOTAL EQUITY		**361.1**	395.2	390.7

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

Paul Stapleton
Director
22 September 2020

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 January 2019	**36.4**	**24.4**	**6.1**	**306.7**	**373.6**
Profit for the year	-	-	-	59.1	59.1
Net other comprehensive expense for the year	-	-	-	(18.3)	(18.3)
Total net comprehensive income for the year	-	-	-	40.8	40.8
Dividends to the shareholder	-	-	-	(23.7)	(23.7)
At 1 January 2020	**36.4**	**24.4**	**6.1**	**323.8**	**390.7**
Profit for the period	-	-	-	28.1	28.1
Net other comprehensive expense for the period	-	-	-	(57.7)	(57.7)
Total net comprehensive income for the period	-	-	-	(29.6)	(29.6)
At 30 June 2020	**36.4**	**24.4**	**6.1**	**294.2**	**361.1**

	Share Capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 January 2019	**36.4**	**24.4**	**6.1**	**306.7**	**373.6**
Profit for the period	-	-	-	30.6	30.6
Net other comprehensive income for the period	-	-	-	(9.0)	(9.0)
Total net comprehensive income for the period	-	-	-	21.6	21.6
At 30 June 2019	**36.4**	**24.4**	**6.1**	**328.3**	**395.2**

GROUP CASH FLOW STATEMENT

	Six months ended 30 June 2020 Unaudited £m	Six months ended 30 June 2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Cash flows from operating activities			
Profit for the period/year	**28.1**	30.6	59.1
Adjustments for:			
Tax charge	**21.3**	7.2	13.8
Net finance costs	**18.5**	18.6	37.4
Depreciation of property, plant and equipment	**38.7**	36.6	74.3
Depreciation of right of use leased assets	**1.5**	1.4	2.9
Release of customers' contributions and grants	**(9.3)**	(9.0)	(18.5)
Amortisation of intangible assets	**2.6**	2.4	4.9
Defined benefit pension charge less contributions paid	**(9.7)**	(9.0)	(18.2)
Net movement in provisions	**(0.2)**	(0.4)	(0.6)
Operating cash flows before movement in working capital	**91.5**	78.4	155.1
Decrease/(Increase) in working capital	**10.5**	4.1	(6.8)
Cash generated from operations	**102.0**	82.5	148.3
Interest paid	**(25.6)**	(25.5)	(35.1)
Lease interest paid	**(0.2)**	(0.2)	(0.3)
Current taxes received/(paid)	**(1.8)**	4.1	1.4
Net cash flows from operating activities	**74.4**	60.9	114.3
Cash flows used in investing activities			
Purchase of property, plant and equipment	**(55.4)**	(66.0)	(133.8)
Customers' cash contributions	**10.1**	12.7	22.8
Purchase of intangible assets	**(1.3)**	(1.4)	(3.1)
Net cash flows used in investing activities	**(46.6)**	(54.7)	(114.1)
Cash flows (used in) / from financing activities			
Dividends paid to shareholder	**-**	-	(23.7)
Payments in respect of lease liabilities	**(1.4)**	(1.1)	(2.9)
Amounts received from group undertakings	**8.0**	-	5.0
Amounts repaid to group undertakings	**(13.0)**	-	-
Net cash flows (used in) financing activities	**(6.4)**	(1.1)	(21.6)
Net increase in cash and cash equivalents	**21.4**	5.1	(21.4)
Cash and cash equivalents at beginning of period / year	**9.0**	30.4	30.4
Cash and cash equivalents at end of period / year	**30.4**	35.5	9.0

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of Preparation

The condensed interim financial statements for the period ended 30 June 2020 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" and the Disclosure and Transparency Rules of the 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 2019.

The condensed interim financial statements have been prepared on the going concern basis as the directors are of the opinion that the Group has adequate financial resources to continue in operational existence for a period of 12 months from the date of approval of the interim report and financial statements. While the impact of the Covid-19 pandemic continues to evolve, the directors are of the opinion that the Group has adequate financial resources to continue for the 12 month period.

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 2020 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 report for the year ended 31 December 2019 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.

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

2. Revenue

	Six months ended 30 June 2020 Unaudited £m	2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Revenue:			
Sales revenue	**146.7**	130.9	258.2
Amortisation of customer contributions from deferred income	**9.1**	8.8	18.1
	155.8	139.7	276.3

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 2020 Unaudited £m	2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Current tax charge			
UK corporation tax at 19.0% (2019 – 19.0%)	**8.6**	6.0	10.8
Total current tax	**8.6**	6.0	10.8
Deferred tax charge			
Origination and reversal of temporary differences in current period	**1.0**	1.2	3.0
Origination and reversal of temporary differences in prior period	**-**	-	-
Effect of increase in tax rate on opening liability	**11.7**	-	-
Total deferred tax charge	**12.7**	1.2	3.0
Total tax charge	**21.3**	7.2	13.8

4. Capital Additions

	Six months ended 30 June 2020 Unaudited £m	2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Property, plant and equipment	**51.6**	64.8	132.5
Intangibles assets - computer software	**1.2**	1.4	3.1
Right of use leased assets	**1.6**	12.7	14.8
	54.4	78.9	150.4

Depreciation of £42.8m (30 June 2019 - £40.4m) was charged in the period. No assets were disposed of in the period (30 June 2019 - £nil).

Capital additions to Right of use leased assets in 2019 include amounts recognised upon adoption of IFRS 16.

5. Capital Commitments

At 30 June 2020 the Group had contracted future capital expenditure in respect of property, plant and equipment of £11.2m (June 2019 - £14.7m) and computer software assets of £3.5m (June 2019 - £5.2m).

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 2020 is as follows:

As at 30 June 2020 **Financial assets:**	**Held at amortised cost Unaudited £m**	**Fair value profit or loss Unaudited £m**
Trade and other receivables	45.0	-
Interest rate swaps	-	17.0
Total current	**45.0**	**17.0**
Interest rate swaps	-	530.6
Total non-current	-	**530.6**
Total financial assets	**45.0**	**547.6**
Financial liabilities:		
Trade and other payables	53.7	-
Interest rate swaps	-	17.0
Lease liabilities	2.7	-
Interest bearing loans and borrowings	7.9	-
Total current	**64.3**	**17.0**
Interest rate swaps	-	530.6
Lease liabilities	9.4	-
Interest bearing loans and borrowings	747.4	-
Total non-current	**756.8**	**530.6**
Total financial liabilities	**821.1**	**547.6**

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.

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.

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

At the same time that the restructuring took effect in 2014 the Company entered into RPI linked interest rate swap arrangements with ESBNI Limited, the immediate parent undertaking of the Company, which have identical matching terms to the restructured swaps. The back to back matching swaps with ESBNI Limited ensure that there is no net effect on the financial statements of the Company and that any risk to financial exposure is borne by ESBNI Limited. The fair value movements have been recognised in finance costs in the income statement, effectively offsetting the fair value movements of interest rate swap liabilities. Positive fair value movements of £37.0m arose on the swaps in the six months ended 30 June 2020 (June 2019: positive fair value movements of £34.8m) and were recognised within finance costs in the income statement, as hedge accounting was not available.

6. Financial Instruments (continued)

During 2020 the Company made swap interest payments of £6.9m (2019: £6.3m). Due to the back to back arrangements, the Company had matching swap interest receipts of £6.9m (2019: £6.3m). Due to the back to back arrangements with ESBNI Limited, no net swap interest cost arises on these transactions and therefore they have been netted in finance costs.

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 2020 is considered by the Company to fall within the level 2 fair value hierarchy. The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no transfers between level 1 or 3 of the hierarchy during the period.

7. Net Debt

	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Cash at bank and in hand	**30.4**	35.5	9.0
Debt due before 1 year:			
Interest payable on £350m bond	**(5.9)**	(6.5)	(1.6)
Interest payable on £400m bond	**(2.0)**	(2.0)	(14.8)
Interest payable to parent undertaking	**(0.1)**	(0.1)	(0.1)
Lease liability	**(2.7)**	(2.5)	(2.8)
Amounts owed to parent undertaking	**-**	-	(5.0)
	(10.7)	(11.1)	(24.3)
Debt due after 1 year:			
£350m bond	**(348.5)**	(348.3)	(348.4)
£400m bond	**(398.9)**	(398.7)	(398.8)
Lease liability	**(9.4)**	(9.1)	(9.1)
	(756.8)	(756.1)	(756.3)
Total net debt	**(737.1)**	(731.7)	(771.6)

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.

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 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Market value of assets	**1,143.3**	1,128.4	1,127.0
Actuarial value of liabilities	**(1,313.8)**	(1,229.0)	(1,230.9)
Net pension liability	**(170.5)**	(100.6)	(103.9)

Changes in the market value of assets

	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Market value of assets at beginning of the period / year	**1,127.0**	1,054.7	1,054.7
Interest income on scheme assets	**11.1**	14.6	28.9
Contributions from employer	**12.4**	12.3	25.0
Contributions from scheme members	**0.1**	0.2	0.4
Benefits paid	**(36.4)**	(31.8)	(67.9)
Administration expenses paid	**(1.4)**	(0.5)	(1.5)
Re-measurement gains on scheme assets	**30.5**	78.9	87.4
Market value of assets at end of the period / year	**1,143.3**	1,128.4	1,127.0

Changes in the actuarial value of liabilities

	30 June 2020 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Actuarial value of liabilities at beginning of the period / year	**1,230.9**	1,152.2	1,152.2
Interest expense on pension liability	**12.1**	15.9	31.3
Current service cost	**2.8**	2.7	5.3
Curtailment costs	**0.1**	0.1	0.1
Past service credit	**(1.6)**	-	-
Contributions from scheme members	**0.1**	0.2	0.4
Benefits paid	**(36.4)**	(31.8)	(67.9)
Effects of changes in demographic assumptions	**-**	-	-
Effect of changes in financial assumptions	**105.8**	89.7	112.1
Effect of experience adjustments	**-**	-	(2.6)
Actuarial value of liabilities at end of the period / year	**1,313.8**	1,229.0	1,230.9

9. Related Party Transactions

During the period ended 30 June 2020, the Group contributed £16.0m (2019 - £15.4m) 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.

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 Two Gateway, East Wall Road, Dublin 3, DOA A995.

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 2020					
ESB	**(0.2)**	**-**	**-**	**-**	**(0.1)**
ESB subsidiaries	**-**	**17.4**	**(1.3)**	**2.8**	**(2.9)**
	(0.2)	**17.4**	**(1.3)**	**2.8**	**(3.0)**
Six months ended 30 June 2019					
ESB	(0.1)	-	-	-	(0.1)
ESB subsidiaries	-	15.6	(1.4)	2.7	(5.2)
	(0.1)	15.6	(1.4)	2.7	(5.3)

10. 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

(i) the 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 2020; 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

Paul Stapleton
Director

22 September 2020

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