Northern Ireland Electricity plc

Unaudited Interim Report

Six months ended
30 September 2010

INTERIM MANAGEMENT REPORT

The directors of Northern Ireland Electricity plc (NIE or the Company) present their interim report and accounts for the six months ended 30 September 2010. The interim accounts have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" and the Disclosure and Transparency Rules of the Financial Services Authority. The interim accounts consolidate the results of NIE and its dormant subsidiary undertakings (the Group).

Principal Activities

NIE holds a transmission licence covering its roles as owner of the transmission and distribution assets and distribution system operator in Northern Ireland. It is responsible for the planning, development, construction and maintenance of the transmission and distribution network and for the operation of the distribution network.

The NIE network comprises an interconnected network of overhead lines and underground cables which are used for the transfer of electricity to c822,000 consumers via a number of substations. There are 2,170km of transmission system, of which some 90km are underground; 43,400km of distribution system, of which some 13,400km are underground; and approximately 250 major substations. NIE's transmission system is connected to that in the Republic of Ireland through 275kV and 110kV interconnectors and to that in Scotland via the Moyle Interconnector.

NIE derives its revenue principally through charges for use of the distribution system, through the public service obligation (PSO) charges levied on electricity suppliers, and charges for transmission services (mainly for use of the transmission system) levied on SONI, the transmission system operator.

Sale of the Company

On 6 July 2010 Viridian Group Limited, the immediate parent undertaking of NIE, entered into a conditional agreement to sell the Company to ESB. The sale has been cleared by the United Kingdom (UK) and Republic of Ireland (RoI) competition authorities. Subject to fulfilment of the remaining conditions, including financing of the remaining Viridian group businesses, the transaction is expected to complete by the end of 2010.

Directors

The directors who held office during the period were as follows:

Mike Toms (independent non-executive chairman)
John Biles (independent non-executive director)
Harry McCracken (executive director)

INTERIM MANAGEMENT REPORT

Business Review

NIE continues to make substantial investment in the Northern Ireland electricity network. During the six month period, total capital expenditure (before customer contributions) increased to £51.8m (2009 - £45.7m), the increase principally due to expenditure on systems to remove the current restrictions on residential consumers changing electricity supplier.

A target for Northern Ireland of 40% of electricity consumption from renewable sources by 2020 was approved by the Northern Ireland Assembly in September 2010. NIE is working with the Department of Enterprise, Trade and Investment (DETI) and the Northern Ireland Authority for Utility Regulation (NIAUR) on a long-term strategy for the development of the electricity network to support the connection of additional renewable generation. It is estimated that an investment in the transmission system of the order of £1bn over the next 10 – 15 years will be needed to achieve the target.

NIE, working jointly with EirGrid, is progressing the development of the 400kV Tyrone-Cavan interconnector to further strengthen the interconnection of the electricity networks of Northern Ireland and the RoI. In December 2009, NIE submitted a planning application seeking consent to construct a new 275/400kV substation near Moy, Co. Tyrone and 33.9km of new 400kV overhead transmission line from the new substation to a crossing point on the border between Co. Armagh and Co. Monaghan in the RoI. In August 2010, the Northern Ireland Minister for the Environment announced that the planning application had been referred to the Planning Appeals Commission for a public inquiry. No date has been announced for the public inquiry.

NIE's current price control is scheduled to run to 31 March 2012. In July 2010, NIAUR issued a consultation paper in relation to the price control which is due to apply from 1 April 2012. NIE responded to the consultation paper at the beginning of October 2010. NIE expects to submit a business plan to NIAUR in January 2011 and to receive NIAUR's initial proposals in summer 2011 and final proposals in early 2012.

Key Performance Indicators

The directors have determined that the following key performance indicators (KPIs), covering both financial and operational performance, are the most effective measures of progress towards achieving NIE's objectives.

Financial KPIs

The financial KPIs are summarised in the table below:

KPIs	**Six months ended 30 September**		**Year ended 31 March**
	2010	2009	**2010**
Pro-forma operating profit (based on regulated entitlement)	**£46.5m**	£54.0m	**£108.8m**
Interest cover (based on pro-forma operating profit)	**4.6 times**	5.3 times	**5.3 times**

INTERIM MANAGEMENT REPORT

Pro-forma operating profit reduced from £54.0m to £46.5m principally reflecting lower regulated entitlement due to a reduced allowed rate of return on the distribution portion of the regulated asset base and a lower allowance in respect of operating costs. The calculation of pro-forma operating profit is shown below:

	Six months ended 30 September		Year ended 31 March
	2010	2009	**2010**
	£m	£m	**£m**
Operating profit per accounts	**38.7**	37.7	**114.6**
Adjustment for under/(over)-recovery of regulated entitlement	**7.8**	16.3	**(5.8)**
Pro-forma operating profit	**46.5**	54.0	**108.8**

Interest cover decreased from 5.3 times to 4.6 times reflecting lower pro-forma operating profit. The calculation of interest cover is shown below:

	Six months ended 30 September		Year ended 31 March
	2010	2009	**2010**
	£m	£m	**£m**
Pro-forma operating profit	**46.5**	54.0	**108.8**
Finance costs (excluding net pension scheme interest)	**(10.1)**	(10.2)	**(20.6)**
Interest cover	**4.6 times**	5.3 times	**5.3 times**

Operational KPIs

The operational KPIs are:

- performance against the overall and guaranteed standards set by NIAUR;
- the number of complaints which the Consumer Council for Northern Ireland (Consumer Council) takes up on behalf of consumers (Stage 2 complaints); and
- the average number of minutes lost per consumer per annum through distribution fault interruptions, excluding the effect of major storms (CML).

KPIs	Six months ended 30 September		Year ended 31 March
	2010	2009	**2010**
Overall standards - defaults	**None**	None	**None**
Guaranteed standards - defaults	**None**	None	**None**
Stage 2 complaints to the Consumer Council	**None**	1	**3**
CML	**31**	30	**59**

During the six month period there were no defaults against the overall and guaranteed standards set by NIAUR (2009 - none) and there were no Stage 2 complaints (2009 - 1).

The number of CML was 31 minutes (2009 - 30) which is better than the target set by NIAUR.

Risks and Uncertainties

The principal risks and uncertainties facing NIE for the remainder of the financial year, which are managed under NIE's risk management procedures, relate to network reliability, consumer service, health and safety, regulation, business continuity, outsourcing, social, environmental and ethical factors, pensions, IT security and data protection, financial control and treasury risks. These risks are described on pages 13 - 18 of NIE's annual report and accounts for the year ended 31 March 2010, a copy of which is available on the website at http://www.nie.co.uk/accounts/NIE_Accounts_2009-2010.pdf.

Financial Review

Revenue and operating profit

Revenue increased from £91.6m to £107.4m and operating profit from continuing operations increased from £37.7m to £38.7m. The directors consider that revenue and operating profit based on regulated entitlement (as shown in note 2 to the accounts) give a more meaningful measure of performance than the operating profit shown in the accounts.

Revenue (based on regulated entitlement) increased from £107.9m to £115.2m largely reflecting higher PSO charges. Operating profit (based on regulated entitlement) reduced from £54.0m to £46.5m reflecting lower regulated entitlement.

Net finance costs

Net finance costs reduced from £15.1m to £12.9m reflecting lower net pension scheme interest.

Tax charge

The tax charge increased to £7.4m (2009 - £6.4m) reflecting the increase in profit before tax to £25.8m (2009 - £22.6m).

Cash flow

Net cash flows from operating activities increased to £34.7m (2009 - £17.6m) reflecting the increase in profit for the period, lower working capital and lower tax paid.

Net cash flows used in investing activities increased to £39.9m (2009 - £39.5m).

No dividends were paid during the period (2009 - £55.0m).

Net debt

Net debt reduced by £0.8m from £497.3m at 31 March 2010 to £496.5m at 30 September 2010 reflecting the cash flows noted above. An analysis of net debt is shown in note 9 to the accounts.

Defined benefit pension liability

The defined benefit pension scheme liability under IAS 19 Employee Benefits increased from £136.2m at 31 March 2010 to £160.0m at 30 September 2010 reflecting an increase in scheme liabilities due to a decrease in the discount rate (reflecting lower bond yields) and lower asset values partially offset by lower inflation expectations.

GROUP INCOME STATEMENT

	Note	Six months ended 30 September Unaudited 2010 £m	Unaudited 2009 £m	Year ended 31 March Audited 2010 £m
Continuing operations				
Revenue	2	**107.4**	91.6	**242.0**
Operating costs		**(68.7)**	(53.9)	**(127.4)**
OPERATING PROFIT	2	**38.7**	37.7	**114.6**
Finance costs		**(10.1)**	(10.2)	**(20.6)**
Net pension scheme interest		**(2.8)**	(4.9)	**(9.8)**
Net finance costs	3	**(12.9)**	(15.1)	**(30.4)**
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX		**25.8**	22.6	**84.2**
Tax charge	4	**(7.4)**	(6.4)	**(21.8)**
PROFIT FROM CONTINUING OPERATIONS AFTER TAX		**18.4**	16.2	**62.4**
Discontinued operations				
Profit for the period from discontinued operations	5	**-**	-	**(1.8)**
PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		**18.4**	16.2	**60.6**

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September Unaudited 2010 £m	Unaudited 2009 £m	Year ended 31 March Audited 2010 £m
Profit for the financial period	**18.4**	16.2	**60.6**
Other comprehensive income/(expense):			
Actuarial loss on pension scheme assets and liabilities	**(25.3)**	(55.9)	**(59.7)**
Tax credit relating to actuarial loss on pension scheme assets and liabilities	**7.1**	15.6	**16.7**
Net other comprehensive expense for the period	**(18.2)**	(40.3)	**(43.0)**
Total net comprehensive income/(expense) for the period	**0.2**	(24.1)	**17.6**

GROUP BALANCE SHEET

	Note	As at 30 September Unaudited 2010 £m	Unaudited 2009 £m	As at 31 March Audited 2010 £m
Non-current assets				
Property, plant and equipment	7	**1,090.5**	1,034.7	**1,063.1**
Intangible assets	7	**39.2**	41.2	**38.6**
Financial assets		**0.1**	0.2	**0.1**
		1,129.8	1,076.1	**1,101.8**
Current assets				
Inventories		**5.9**	6.0	**6.0**
Trade and other receivables		**30.1**	44.0	**43.4**
Financial assets		**0.1**	0.1	**0.2**
Cash and cash equivalents		**0.1**	-	**0.2**
		36.2	50.1	**49.8**
TOTAL ASSETS		**1,166.0**	1,126.2	**1,151.6**
Current liabilities				
Trade and other payables		**97.6**	89.4	**104.0**
Current tax payable		**2.7**	6.5	**9.4**
Deferred income		**8.0**	7.7	**7.8**
Financial liabilities		**323.0**	364.1	**324.0**
Provisions		**2.1**	4.1	**1.7**
		433.4	471.8	**446.9**
Non-current liabilities				
Deferred tax liabilities		**77.7**	78.1	**80.1**
Deferred income		**226.0**	215.4	**219.3**
Financial liabilities		**173.6**	173.4	**173.5**
Provisions		**7.0**	6.5	**7.5**
Pension liability		**160.0**	134.6	**136.2**
		644.3	608.0	**616.6**
TOTAL LIABILITIES		**1,077.7**	1,079.8	**1,063.5**
NET ASSETS		**88.3**	46.4	**88.1**
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		**21.4**	(20.5)	**21.2**
TOTAL EQUITY		**88.3**	46.4	**88.1**

The accounts were approved by the Board of directors and authorised for issue on 16 November 2010.

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 April 2009	**36.4**	**24.4**	**6.1**	**58.6**	**125.5**
Profit for the period	-	-	-	60.6	60.6
Net other comprehensive expense for the period	-	-	-	(43.0)	(43.0)
Total net comprehensive income for the period	-	-	-	17.6	17.6
Equity dividends (note 6)	-	-	-	(55.0)	(55.0)
At 1 April 2010	**36.4**	**24.4**	**6.1**	**21.2**	**88.1**
Profit for the period	-	-	-	18.4	18.4
Net other comprehensive expense for the period	-	-	-	(18.2)	(18.2)
Total net comprehensive expense for the period	-	-	-	0.2	0.2
Equity dividends (note 6)	-	-	-	-	-
At 30 September 2010	**36.4**	**24.4**	**6.1**	**21.4**	**88.3**

	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated profits £m	Total £m
At 1 April 2009	**36.4**	**24.4**	**6.1**	**58.6**	**125.5**
Profit for the period	-	-	-	16.2	16.2
Net other comprehensive expense for the period	-	-	-	(40.3)	(40.3)
Total net comprehensive expense for the period	-	-	-	(24.1)	(24.1)
Equity dividends (note 6)	-	-	-	(55.0)	(55.0)
At 30 September 2009	**36.4**	**24.4**	**6.1**	**(20.5)**	**46.4**

GROUP CASH FLOW STATEMENT

	Six months ended 30 September		Year ended 31 March
	Unaudited 2010 £m	Unaudited 2009 £m	**Audited 2010 £m**
Cash flows from operating activities			
Profit for the period	**18.4**	16.2	**60.6**
Adjustments for:			
Tax charge - continuing operations	**7.4**	6.4	**21.8**
Net finance costs - continuing operations	**12.9**	15.1	**30.4**
Gain on disposal of discontinued operations	**-**	-	**1.8**
Depreciation of property, plant and equipment	**21.1**	20.1	**40.8**
Amortisation of intangible assets	**2.7**	2.8	**5.6**
Amortisation of customers' contributions and grants	**(4.0)**	(3.9)	**(7.8)**
Loss on disposal of property, plant and equipment	**-**	-	**0.1**
Defined benefit pension charge less contributions paid	**(4.3)**	(4.2)	**(8.5)**
Net movement in provisions	**(0.1)**	(1.3)	**(2.8)**
Operating cash flows before movement in working capital	**54.1**	51.2	**142.0**
Decrease/(increase) in working capital	**6.2**	(6.1)	**1.9**
Cash generated from operations	**60.3**	45.1	**143.9**
Interest paid	**(16.1)**	(16.3)	**(20.6)**
Current taxes paid	**(9.4)**	(11.2)	**(21.3)**
Net cash flows from operating activities	**34.8**	17.6	**102.0**
Cash flows from investing activities			
Purchase of property, plant and equipment	**(47.5)**	(46.4)	**(92.2)**
Purchase of intangible assets	**(3.3)**	-	**(0.2)**
Contributions in respect of property, plant and equipment	**10.9**	6.9	**14.8**
Net cash flows used in investing activities	**(39.9)**	(39.5)	**(77.6)**
Cash flows from financing activities			
Proceeds from borrowings	**4.8**	75.1	**29.2**
Equity dividends paid	**-**	(55.0)	**(55.0)**
Net cash flows from/(used in) financing activities	**4.8**	20.1	**(25.8)**
Net decrease in cash and cash equivalents	**(0.3)**	(1.8)	**(1.4)**
Cash and cash equivalents at beginning of period	**0.2**	1.6	**1.6**
Cash and cash equivalents at end of period	**(0.1)**	(0.2)	**0.2**

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 INTERIM ACCOUNTS

1. Basis of Preparation

The interim accounts for the six months ended 30 September 2010 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" and the Disclosure and Transparency Rules of the Financial Services Authority.

The interim accounts consolidate the results of Northern Ireland Electricity plc and its dormant subsidiary undertakings (the Group).

The interim accounts have been prepared on the basis of the accounting policies set out in the accounts for the year ended 31 March 2010. The following amendments to existing standards and interpretations were also effective for the current period, but did not have a material impact on the accounts:

IAS 27 (revised)	Consolidated and Separate Financial Statements
IAS 39	Amendment - Eligible Hedged Items
IFRS 3 (revised)	Business Combinations
IFRIC 9 and IAS 39	Embedded Derivatives
IFRIC 18	Transfers of Assets from Customers

The interim accounts have been prepared on the going concern basis as the directors, having considered available relevant information, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The interim accounts 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 information shown for the year ended 31 March 2010 does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and has been extracted from the Group's annual report for the year ended 31 March 2010, which has been filed with the Registrar of Companies. The report of the auditors on the accounts contained within the Group's annual report for the year ended 31 March 2010 was unqualified 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.

NOTES TO THE INTERIM ACCOUNTS (continued)

2. Operating Segments Information

Revenue and profit - continuing operations

	Six months ended 30 September						Year ended 31 March		
Continuing operations	**2010 External £m**	**2010 Internal £m**	**2010 Total £m**	2009 External £m	2009 Internal £m	2009 Total £m	**2010 External £m**	**2010 Internal £m**	**2010 Total £m**
Revenue:									
Transmission and Distribution	**115.2**	**0.1**	**115.3**	107.8	0.1	107.9	**236.0**	**0.2**	**236.2**
Other	**-**	**-**	**-**	0.1	-	0.1	**0.2**	**-**	**0.2**
	115.2	**0.1**	**115.3**	107.9	0.1	108.0	**236.2**	**0.2**	**236.4**
Inter-group elimination			**(0.1)**			(0.1)			**(0.2)**
Based on regulated entitlement			**115.2**			107.9			**236.2**
Adjustment for (under)/over-recovery			**(7.8)**			(16.3)			**5.8**
			107.4			91.6			**242.0**
Operating profit:									
Transmission and Distribution			**46.5**			53.6			**107.7**
Other			**-**			0.4			**1.1**
Based on regulated entitlement			**46.5**			54.0			**108.8**
Adjustment for (under)/over-recovery			**(7.8)**			(16.3)			**5.8**
			38.7			37.7			**114.6**
Finance costs			**(10.1)**			(10.2)			**(20.6)**
Net pension scheme interest			**(2.8)**			(4.9)			**(9.8)**
Net finance costs			**(12.9)**			(15.1)			**(30.4)**
Profit from continuing operations before tax			**25.8**			22.6			**84.2**

The adjustment for (under)/over-recovery represents the amount by which the Group (under)/over-recovered against its regulated entitlement.

NOTES TO THE INTERIM ACCOUNTS (continued)

3. Net Finance Costs

	Six months ended 30 September 2010 £m	30 September 2009 £m	Year ended 31 March 2010 £m
Interest payable:			
Eurobond	**(6.0)**	(6.0)	**(12.0)**
Amounts owed to fellow Viridian undertakings	**(4.1)**	(4.2)	**(8.6)**
	(10.1)	(10.2)	**(20.6)**
Less: capitalised interest	**0.1**	0.1	**0.1**
Total interest charged to the income statement	**(10.0)**	(10.1)	**(20.5)**
Other finance costs:			
Amortisation of financing charges	**(0.1)**	(0.1)	**(0.1)**
Total finance costs	**(10.1)**	(10.2)	**(20.6)**
Net pension scheme interest:			
Expected return on pension scheme assets	**15.9**	12.6	**25.0**
Interest on pension scheme liabilities	**(18.7)**	(17.5)	**(34.8)**
	(2.8)	(4.9)	**(9.8)**
Net finance costs	**(12.9)**	(15.1)	**(30.4)**

4. Tax Charge

	Six months ended 30 September 2010 £m	30 September 2009 £m	Year ended 31 March 2010 £m
Current tax charge			
UK corporation tax at 28% (2009 - 28%)	**2.7**	4.6	**17.6**
Deferred tax charge			
Origination and reversal of temporary differences in current year	**4.7**	1.8	**4.9**
Total tax charge reported in the income statement	**7.4**	6.4	**22.5**
Relating to continuing operations	**7.4**	6.4	**21.8**
Relating to discontinued operations	**-**	-	**0.7**
	7.4	6.4	**22.5**

5. Discontinued Operations

The results of discontinued operations in the Group Income Statement are as follows:

	Note	Six months ended 30 September 2010 £m	Six months ended 30 September 2009 £m	Year ended 31 March 2010 £m
Loss on disposal of discontinued operations before tax		**-**	-	**(1.1)**
Tax charge relating to loss on disposal of discontinued operations	4	**-**	-	**(0.7)**
Loss for the period from discontinued operations		**-**	-	**(1.8)**

6. Dividends Paid

	Six months ended 30 September 2010 £m	Six months ended 30 September 2009 £m	Year ended 31 March 2010 £m
Equity dividends on ordinary shares:			
Interim dividend for the year ended 31 March 2010	**-**	55.0	**55.0**

7. Capital Expenditure

	Six months ended 30 September 2010 £m	Six months ended 30 September 2009 £m	Year ended 31 March 2010 £m
Continuing operations:			
Property, plant & equipment	**48.5**	45.7	**94.9**
Intangible assets - computer software	**3.3**	-	**0.2**
	51.8	45.7	**95.1**

No assets were disposed of by the Group during the period (2009 - £nil).

8. Capital Commitments and Contingent Liabilities

At 30 September 2010 the Group had capital commitments of £5.4m (2009 - £11.9m).

9. Net Debt

	As at 30 September 2010 £m	2009 £m	As at 31 March 2010 £m
Cash at bank and in hand	**0.1**	-	**0.2**
Debt due before 1 year:			
Interest payable on Eurobond	**(0.4)**	(0.4)	**(6.4)**
Bank loans and overdrafts	**(0.2)**	(0.2)	**-**
Amounts owed to fellow Viridian undertakings	**(322.4)**	(363.5)	**(317.6)**
	(323.0)	(364.1)	**(324.0)**
Debt due after 1 year:			
Eurobond	**(173.6)**	(173.4)	**(173.5)**
Total net debt	**(496.5)**	(537.5)	**(497.3)**

10. Related Party Transactions

During the six months ended 30 September 2010, the Group contributed £5.5m (2009 - £5.1m) to the Viridian Group Pension Scheme.

The immediate parent undertaking of the Group is Viridian Group Limited. The parent undertaking of the largest group of which the Company is a member and for which group accounts are prepared is Viridian Group Holdings Limited (Viridian). Principal subsidiaries of Viridian are related parties of the Group. Transactions with Viridian Group Limited and other Viridian subsidiaries and the balances outstanding are disclosed below:

	Ordinary dividends paid £m	Interest paid £m	Revenue from related party £m	Charges from related party £m	Amounts owed by related party at period end £m	Amounts owed to related party at period end £m
6 months to 30 September 2010						
Viridian Group Limited	**-**	**(4.1)**	**-**	**-**	**-**	**322.4**
Other Viridian subsidiaries	**-**	**-**	**72.0**	**26.7**	**21.3**	**26.4**
	-	**(4.1)**	**72.0**	**26.7**	**21.3**	**348.8**
6 months to 30 September 2009						
Viridian Group Limited	55.0	4.2	-	-	-	363.5
Other Viridian subsidiaries	-	-	82.5	26.8	28.9	18.0
	55.0	4.2	82.5	26.8	28.9	381.5
Year to 31 March 2010						
Viridian Group Limited	**55.0**	**8.6**	**-**	**-**	**-**	**328.8**
Other Viridian subsidiaries	**-**	**-**	**186.1**	**71.2**	**32.2**	**31.8**
	55.0	**8.6**	**186.1**	**71.2**	**32.2**	**360.6**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm, that to the best of their knowledge:

(i) the interim accounts have been prepared in accordance with IAS 34 as adopted by the European Union (EU) and the Disclosure and Transparency Rules of the Financial Services Authority; 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

Harry McCracken
Managing Director

16 November 2010