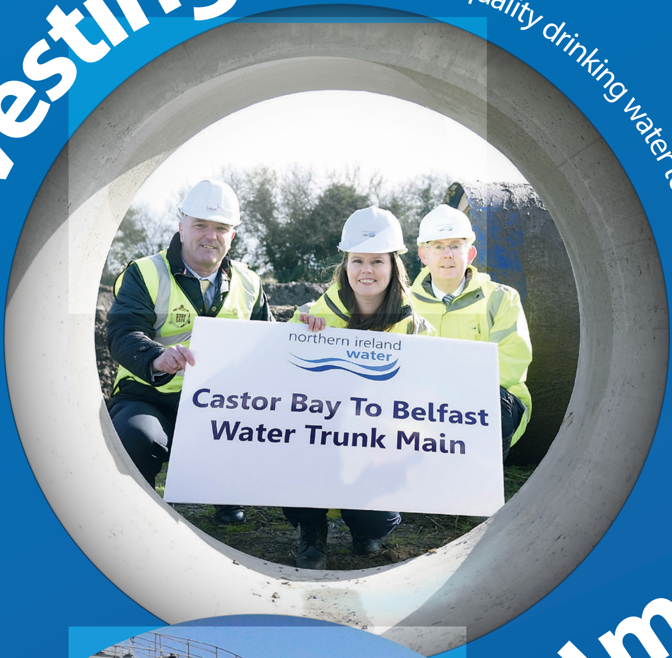
northern ireland water

Annual Report and Accounts 2014/15

Investing to provide high quality drinking water to our customers.



Improving our processes to become more environmentally sustainable.

Delivering an improved customer experience.

Northern Ireland Water Limited
Annual Report and Accounts
For the year ended 31 March 2015

Laid before the Northern Ireland Assembly
under Article 276 of the Water and Sewerage Services
(Northern Ireland) Order 2006 by the Department for
Regional Development

on

22 July 2015

Year at a glance

Customer service

The overall level of service* for our customers was below target as a result of higher levels of unplanned supply interruptions.

* Based on an Overall Performance Assessment (OPA) score of 206 against a 2014/15 target of 215.

Page 9
Read more about improving performance.

Drinking water quality

Drinking water quality has remained at historically high levels.

Page 34
Read more about drinking water quality.

Supply interruptions

During 2014/15, our unplanned supply interruptions were higher than targeted, primarily as a result of Industrial Action.

Page 74
Read more about supply interruptions.

Efficiency gap

We have more than halved the gap with the leading edge (frontier) water and wastewater companies in England and Wales from 49% in 2007/08 to 17%* in 2013/14.

Page 41
Read more about operating more efficiently.

* Subject to determination by the Utility Regulator. Measured one year in arrears.

Wastewater compliance

Wastewater compliance continues to be at near record levels.

Page 68
Read more about wastewater compliance.

Keeping bills affordable

Non domestic charges in 2014/15 were reduced by 4%, on average, from the previous year.

Page 39
Read more about affordability.

Pollution incidents

Pollution incidents continue to be at near record low levels.

Page 69
Read more about protecting our environment.

Working environment

NI Water has been awarded the RoSPA 'Gold Medal' for Achievement in Occupational Safety and Health Performance.

Page 81
Read more about health and safety.

Contents

Tell us what you think of our report

We hope that this report will be of use to all our stakeholders and would welcome feedback to develop our future reporting. Please direct any feedback to the Business Performance Manager, Finance and Regulation Directorate. Our contact details are on the back cover of this report.

Strategic Report

This Strategic Report is produced in accordance with 'The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.'

Welcome

NI Water is one of Northern Ireland's largest companies. Our business is about investing in, improving and delivering water and sewerage services in Northern Ireland which cost around £435m per year[1]. We provide an **essential service** which supports the health, environment and local economy of the areas we serve.

Our service is in many ways invisible but becomes highly visible when it is not delivered. The reform of our pension arrangements resulted in **Industrial Action** over December 2014 and January 2015. During this period, water supply was impacted, particularly to our customers in the west of the Province. While we deeply regret this, it was truly heartening to see the support and commitment from a variety of agencies, organisations and volunteers who assisted NI Water's emergency response teams, in line with our emergency plan, during this difficult time. While agreement was subsequently reached on pension reform, we still continue to improve our resilience to meet the demands of a major incident response.

Our **hybrid business delivery model**[2] is recognised as being not the most efficient method for use by a provider of infrastructure investment. We face uncertainty over medium term investment planning which adds complexity and inefficiency to our capital investment delivery; and have less commercial freedom to restructure and make decisions than the rest of the UK water industry. We continue to work closely with our stakeholders to limit the effects this has on our performance and to highlight the need to move to a more suitable delivery model.

The successful completion of the 2013-15 (PC13) period represents another important milestone in our **transition** towards being a modern, efficient water utility. Over PC13, we delivered record levels of service to customers while also reducing the cost of running the business. It costs 33% (£66m) per annum less to run the business than at the start of the previous price control in 2010/11[3].

Challenges lie ahead to the transition process. The Utility Regulator's Final Determination for the PC15 period (2015-21) was rejected by the Company as there was insufficient Public Expenditure funding. We are in discussions with DRD and the Utility Regulator to consider appropriate 2015/16 outputs as a result of the reduced funding. However, the **absence of a medium term funding settlement** covering the PC15 period could result in regression in levels of service to our customers. We remain committed to working with all our stakeholders to mitigate any service regression and aim to deliver the most cost efficient and high quality drinking water and wastewater services possible to our customers, within our current business delivery model.

I hope you will take the opportunity to read our report and experience our continued and sustained transformation of the water and wastewater services across Northern Ireland.

Dr Leonard J. P. O'Hagan CBE
Chairman

24 June 2015

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[1] Based on funding for year 1 of the PC15 Final Determination.
[2] NI Water is a Government owned company in law, but treated as a Non-Departmental Public Body for Public Expenditure purposes.
[3] Based on a reduction in operational costs between 2009/10 (baseline year) and 2014/15 using 2012/13 prices.

Creating value

NI Water works to **preserve and generate value** for current and future generations. We do this by focusing on eight strategic priorities which centre around a single vision.

Business model

NI Water works with the **natural water cycle** to deliver water and wastewater services to our customers.

The Amazing Cycle of Water

- The seas hold 97% of the world's water and are salty.
- 2% is frozen in the polar ice-caps.
- 1% is freshwater and provides all the water we use.
- This includes all the water in lakes, rivers, atmosphere and underground.

The Water Cycle

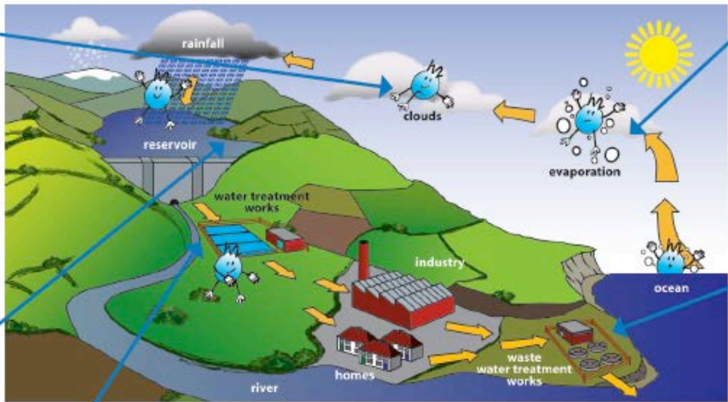
- There is a never ending supply of water through a natural process called the water cycle.
- Just like a bicycle wheel, the water cycle has no beginning and no end. It has been the same since time began.
- Thanks to the water cycle, water doesn't get used up – it simply goes round and round!
- This water or hydrological cycle has to be used sensibly by humans to meet our needs.

Supply and Demand

The rise in (a) population,
(b) the building of new towns and industry and (c) leisure activities, mean a greater need for water. We each use approximately 150 litres of clean treated water every day for washing, cooking, drinking, watering the garden, etc. Currently Northern Ireland Water supplies around 560 million litres of water each day.

Use Water Wisely

The treatment, distribution and disposal of water are expensive and effect the environment. Therefore, we all need to use water wisely. Use one of our water audit leaflets to work out how your usage compares to the average. You will be surprised at how much water you actually use.



1 Cloud Storage / Rain
When clouds blow across the land and the temperature drops, vapour forms into droplets, which fall back on the land as rain, snow or hail.
Rain :
- finds its way to streams, lakes and rivers, or
- can pass through porous ground such as chalk to form aquifers, or
- can be trapped in man-made reservoirs.

2 Reservoir
The reservoirs, rivers, lakes and aquifers are the sources of water we use at home and at work.

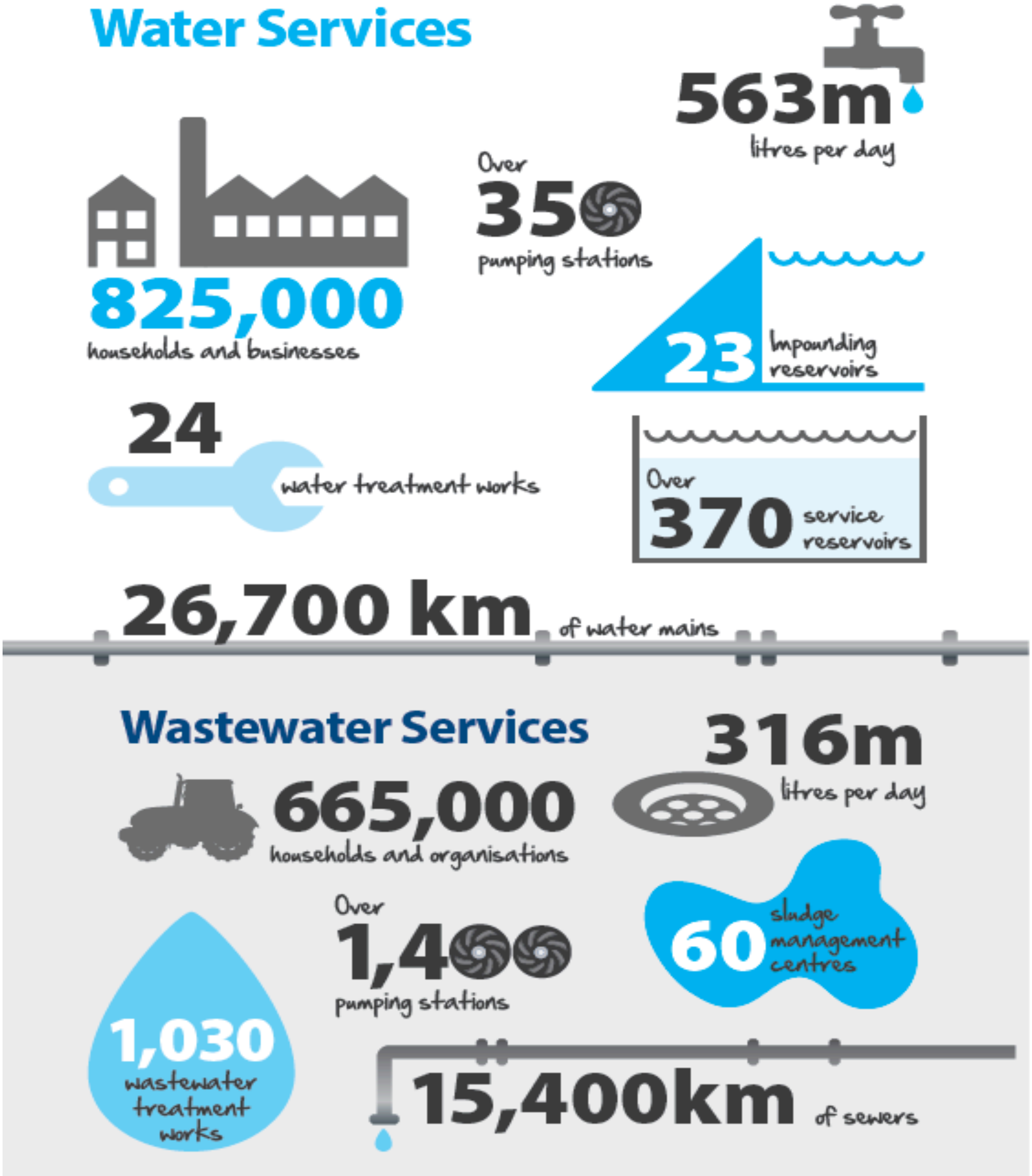
3 Water Treatment Works
Northern Ireland Water enters this natural cycle and makes sure that the water we use is clean and safe. This is done at a Water Treatment Works, where it is filtered and bacteria is removed. The water is then supplied through a network of pipes to homes, schools, factories and to all other users.

4 Wastewater Treatment Works
Used water from our baths, washing machines, sinks, toilets and rain that runs into the sewers, is called wastewater or sewage. Before it is put back into the sea is has to be cleaned, this happens at a Wastewater Treatment Works.

5 Evaporation
When the sun shines on the seas, rivers and lakes it turns some of the water into water vapour (gas) this is called evaporation. This gas rises to the sky; it cools again to forms clouds and turns to rain.

Business activities

It takes around £435m each year[4] to run our water and wastewater businesses in Northern Ireland.



Figures based on Annual Information Return 2014 data

4 Based on funding for year 1 of the PC15 Final Determination.

Business performance

The focus over PC13 has been on the delivery of the most cost efficient and high quality drinking water and wastewater services possible to our customers, within our current business delivery model.

Customer focus

Our customers continue to benefit from near record levels of service, which in the absence of Industrial Action, would have been our highest ever[5]. We very much regret the impact this had on our customers.

Levels of **written complaints** in 2014/15 at 2,364 are 12% below target.

Pages 9 and 31
Read more about reducing levels of complaints.

In 2014/15 we **removed 186 properties** from the register of properties at risk of receiving **low water pressure,** representing 9% more than target.

Pages 10 and 77
Read more about reducing low pressure.

The removal of properties at risk of sewer flooding remains a key area of focus. We have internal and external historical flood reporting capability to better plan our capital investment and alleviate the problems faced by areas which have experienced flooding events.

Our continued investment in the water mains improvement programme is contributing towards a reduction in levels of leakage.

In 2014/15 we continued to reduce leakage by a further **1 million litres per day**. However, our target of 165 Ml/d was not met, with Industrial Action being a contributory factor.

Pages 9 and 77
Read more about reducing leakage.

Unfortunately the **overall level of service*** for our customers was below target as a result of higher levels of unplanned supply interruptions, primarily relating to the Industrial Action.

* Based on an Overall Performance Assessment (OPA) score of 206 against a 2014/15 target of 215. The OPA score is a composite score used by the Utility Regulator to assess NI Water's levels of service.

Our levels of **water and wastewater compliance** in 2014 are at some of the highest ever levels at 99.84% and 98.42% respectively.

Pages 10, 34 and 68
Read more about improving drinking water and wastewater quality.

Although the **sewer flooding (at risk)** target wasn't achieved, it should be noted that, more properties were removed from the flooding register through having better information and, therefore, fewer properties were available for removal by Company action. The underperformance against the **sewer flooding (overload)** target was primarily due to a number of heavy rainfall events. We didn't meet the target for **sewer flooding (other causes)** incidents, however, the majority of these incidents were related to sewer blockages due to **inappropriate items being put in the sewers**.

Pages 9, 10 and 69 to 71
Read more about sewer flooding.

[5] Based on an OPA score of 225 against a 2014/15 target of 215.

Affordability

Over 2014/15 we have improved our business, attaining near record **levels of service** to customers, while **reducing our running costs.** This has enabled us to **reduce average bills** for our business customers by 4% in 2014/15. The improving performance is supported by our investment programme of around £160m each year[6].

Operational cost efficiencies have been generated through a range of measures which include in-sourcing and making better use of in-house skills; reducing supply chain costs through procurement efficiencies; and continuing our Voluntary Early Retirement and Voluntary Severance schemes.

We **reduced** our **running costs** by **4% (£5m*)** in 2014/15 through our continued focus on cost control.

* Based on an approach used by the Utility Regulator. Details of this approach are contained within the Utility Regulator's Cost and Performance Report.

Pages 41 to 48
Read more about reducing our running costs.

Natural environment

As one of the largest landowners and users of electricity in Northern Ireland, our activities have a significant impact on the environment. We have implemented **Sustainable Catchment area Management Planning (SCaMP NI)** for drinking water catchments to provide a more environmentally sustainable way of improving water quality. We remain committed to **reducing our pollution incidents**. We are also targeting energy efficiencies and the use of renewable sources of energy to mitigate our impact and **reduce the production of climate change gases**.

Page 62
Read more about sustainable land management.

Pollution incidents continue to be at **near record low levels**, with 25 incidents recorded against a target of not more than 44 incidents.

Page 69
Read more about reducing pollution incidents.

Page 54
Read more about adapting to deal with the effects of climate change.

Working environment

We continue to focus on making NI Water a safe place to work by working with our staff, trade unions and contractors to reduce accidents in the work place and achieve our **zero accident ambition**.

We received the **2014 RoSPA Gold Medal** for achievement in occupational **health and safety performance**.

RoSPA is the Royal Society for the Prevention of Accidents.

Page 81
Read more about health and safety.

[6] Under review given reduced levels of Public Expenditure.

Looking forward

NI Water has developed a strong and ambitious business plan for PC15, which underpins our desire to deliver an improved service for our customers, at a sustainably lower cost via a highly engaged workforce. We're proud of what we do, we know our services are essential and we are committed to working with the NI Executive to secure their support in funding our plans as approved by the Utility Regulator.

Page 18
Read more about funding our plans for the PC15 period.

I would like to thank the Board and my management team for their support during 2014/15 and all our employees for their continued commitment, drive and enthusiasm to deliver improved levels of service to our customers.

Sara Venning
Chief Executive
24 June 2015

Key Performance Indicators

Key Performance Indicators (KPIs) are used to measure delivery of our business strategy.
2015/16 targets are subject to the outcome of ongoing discussions with the Utility Regulator following rejection of the PC15 Final Determination.

Overall Performance Assessment (OPA) Score

Score
206

Target 2014/15	215
Actual 2014/15	206
Target 2015/16	218

Supply Interruptions

Properties in excess of 6 hours
5.29%

Target 2014/15	0.88%
Actual 2014/15	5.29%
Target 2015/16	0.87%

Properties in excess of 12 hours
3.10%

Target 2014/15	0.19%
Actual 2014/15	3.10%
Target 2015/16	0.18%

Properties in excess of 24 hours
1.67%

Target 2014/15	0.01%
Actual 2014/15	1.67%
Target 2015/16	0.01%

Customer Complaints

Written complaints
2,364

Target 2014/15	2,700
Actual 2014/15	2,364
Target 2015/16	2,550

Response to complaints
99.96%

Target 2014/15	99.5%
Actual 2014/15	99.96%
Target 2015/16	99.5%

CCNI Stage 2 complaints
28

Target 2014/15	43
Actual 2014/15	28
Target 2015/16	41

Leakage

Million litres per day
166

Target 2014/15	165
Actual 2014/15	166
Target 2015/16	163

Customer Contacts

Telephone contacts received
230,847

Target 2014/15	247,500
Actual 2014/15	230,847
Target 2015/16	244,868

Customer satisfaction score
4.65

Target 2014/15	4.75
Actual 2014/15	4.65
Target 2015/16	4.65

Sewer flooding

Properties removed from 'at risk' register
28 properties

Target 2014/15	44
Actual 2014/15	28
Target 2015/16	8

Overload of a sewer
25 properties

Target 2014/15	6
Actual 2014/15	25
Target 2015/16	6

Sewer flooding Continued

Other causes

50 properties

Target 2014/15	30
Actual 2014/15	50
Target 2015/16	59

Employee attendance

96.5%

Target 2014/15	96.8%
Actual 2014/15	96.5%
Target 2015/16	96.5%

Wastewater quality

Population served by compliant wastewater treatment works

98.4%

Target 2014	97.8%
Actual 2014	98.4%
Target 2015	98.08%

Low Pressure

Properties removed from low pressure register

186 properties

Target 2014/15	170
Actual 2014/15	186
Target 2015/16	92

Water quality at the tap*

Mean zonal compliance

99.84%

Target 2014	99.70%
Actual 2014	99.84%
Target 2015	99.79%

Pollution incidents

High / medium severity incidents attributed to NI Water

25

Target 2014	44
Actual 2014	25
Target 2015	28

Health & Safety

Lost time accidents

5

Target 2014/15	7
Actual 2014/15	5
Target 2015/16	7

Water quality events

Significant, serious or major events

36

Target 2014	42
Actual 2014	36
Target 2015	36

* 2015 target is overall compliance

Capital investment programme outputs *

Completion of nominated schemes

497

Target 2014/15	514
Actual 2014/15	497
Target 2015/16	139

Water mains and sewerage activity

495km

Target 2014/15	468km
Actual 2014/15	495km
Target 2015/16	141km

Operating cost efficiency gap to leading edge (frontier) water and wastewater companies in England and Wales

17.0%

(Measured 1 year in arrears)

Actual 2013/14	17.0%
Actual 2012/13	21.6%
Actual 2011/12	31.3%

Capital investment programme expenditure

£151.2m

Target 2014/15	£149.2m
Actual 2014/15	£151.2m
Target 2015/16	£136.0m

Key

Target achieved

Target failed

* 2014/15 2 year PC13 cumulative target, 2015/16 1 year target under constrained PC15 funding

Principal risks and opportunities

The Company is exposed to a number of risks and opportunities which could have a material impact on its business and its ability to create value over the short, medium and long term. The specific steps being taken to mitigate or manage principal risks and to create value from the principal opportunities in relation to the Company's strategic objectives are listed below.

Pages 100 to 106
Read more about opportunity risk management.

Principal Risks and Uncertainties

1. NI Water has advised both the Executive and DRD of the implications of **reduced funding in the short and medium term** and constraints around pay and pensions.

Background to the risk
The current arrangements for the governance of NI Water as both a regulated Government Company (Go Co) and a Non-Departmental Public Body (NDPB) bring with it certain challenges, such as the short, medium and longer term operational and capital funding requirements. The governance model necessarily places constraints on the Board and management in agreeing employees' terms and conditions and also required reform to NI Water's Pension Scheme. This led to a sustained period of Industrial Action, which resulted in the loss of supply to customers in January 2015. The future implications on funding constraints are reflected in the Governance Statement (refer to page 101) in relation to PC15 as it has implications from 2015/16 onwards. The impact on the Board's Going Concern assessment is addressed in note 1(c) to the Statutory Accounts.

Managing the risk
The issues relating to pay and pensions have since been resolved post year end. The Company is continuing to work closely with DRD and the Utility Regulator to ensure that the implications on the delivery of its services as a consequence of funding constraints, are fully analysed, managed, delivered and communicated to the public in a clear and responsive manner.

2. The **failure of our assets** which could inhibit our ability to carry out critical operations could have a significant impact on customers, the environment and our financial position.

Background to the risk
NI Water inherited an aged asset base and much investment is required to bring it to a compatible level by UK and European standards. The regulated business requires significant capital investment and a maintenance programme for water and wastewater networks and treatment facilities in order to comply with regulatory and environmental performance standards. There is a risk that the Company may suffer a major failure in its assets which could arise from an inability to deliver the capital investment programme or to maintain its systems. This could cause a significant impact to our customers due to deterioration in the quality of drinking water, interruptions to supply and management of wastewater services, including the impact to the environment.

Managing the risk
NI Water continues to work with the Utility Regulator and DRD on short and long term funding arrangements to make further improvement to its assets and take opportunities to manage exposure to risks associated with climate change. The Company's Major Incident Plan (MIP) is continually being updated to reflect best practice and key learning points from its annual testing and exercises and previous emergency and major events. The Company will endeavour to maximise the lessons learned from a review by the Utility Regulator and our internal review. The Company's' Business Continuity Management is integrated with the MIP and provides the necessary support in a major event. The 14 specific Business Continuity Plans reflect the key business risks and are activated over the year in response to specific business needs. An Information Technology Disaster Recovery Plan is in place to reduce the impact of adverse events and to manage recovery to 'business as usual'. A facilities management plan is in place to provide alternative work areas as and when necessary.

3. The success of NI Water's operations depend on a number of factors relating to business performance, including the ability to deliver on the anticipated **cost and efficiency savings** as set out in PC13 and to agree PC15 (a 6 year price control period) commencing April 2015.

Background to the risk
The Company is subject to certain risks which are largely outside its control, such as energy costs; adverse weather resulting in severe flood related costs and damages to fixed assets; unlawful acts by third parties, including pollution, sabotage or other related acts; as well as a downturn in the economy which could result in a decrease in revenue. These factors may also result in physical damage or otherwise significantly affect corporate activities and, as a consequence, affect the results of operations and financial position. The level of efficiencies required will present challenges to NI Water in terms of how it delivers these savings whilst maintaining and delivering effective services to the public. Whilst we have broadly achieved the key PC13 targets, the targets set by the Utility Regulator for PC15 are not achievable without the required funding. In addition there is a risk that efficiency targets leave the organisation unable to re-invest for development of future capability.

Managing the risk
NI Water continues to work with the Utility Regulator and DRD on short and long term targets and efficiency savings, including the approval of strategic capital projects to reduce the risk of adverse impacts on customers. NI Water is in the process of designing a 'Future Organisation Model' (FOM), which is critical to achieve the PC15 targets, deliver cost savings and providing the best possible service to our customers.

4. The robustness and accuracy of **data and the changes in technology** requires effective management of information and communication to our customers in order to provide the quality of service that they have come to expect.

Background to the risk
There is a risk of errors or unintentional reporting of information which could have an impact on customers and other stakeholders. There has also been an increase in the number of visits to NI Water's website and other communication channels. Whilst NI Water has developed an effective communication strategy and has been pro-active in communicating with customers, there is still a risk that such dialogue and engagement could create a negative impact on NI Water's reputation.

Managing the risk
NI Water is continually making improvements in its 'information governance' to manage the quality of information to support service delivery and policy making. This includes working with stakeholders to improve the accuracy and speed of information available for management and reporting.

5. Subject to the decision of the NI Executive, any future decision on the **governance model** of NI Water and future financing arrangements will have significant implications for the Company and the delivery of its services.

Background to the risk
The current arrangements for the governance of NI Water as both a regulated GoCo and a NDPB, brings with it certain challenges, such as the longer term capital funding constraints. The current system of setting the capital programme within the Utility Regulator's price setting process does not align with the annual cycle of public sector funding.

Managing the risk
Consistent with risk 1, the Company is continuing to work closely with DRD and the Utility Regulator to ensure that the implications on the delivery of its services, are fully analysed, managed, delivered and communicated to the public in a clear and responsive manner.

6. Ready access to finance and budgetary cover in the event of a **major emergency**.

Background to the risk
The previously extended capital loan note facility and banking facilities were due to expire on 31 March 2016. A new loan note facility for £600m, which is in addition to the current funding which expires on 31 March 2016, has been put in place between DRD and NI Water for the five years to March 2021 to ensure sufficient funding is in place for the capital programme. In addition it has been agreed that the current working capital facility of £20m will be maintained to March 2021. The current capital loan note and its replacement make provision for their use to facilitate emergencies. It has also been agreed that the subsidy may be drawn down earlier than scheduled in the event of an emergency.

Managing the risk
The Company is working with DRD to ensure that proper and effective arrangements are in place to facilitate the funding of major emergency events.

7. The change in the terms of reference of NI Water's Pension Scheme to be more in line with the **public sector pension schemes** could present further challenges for the Company.

Background to the risk
The Company has reformed its Pension Scheme such that the benefits accruing and contributions made by members of the NI Water Pension Scheme are similar to other public sector pension schemes. The introduction of these changes gave rise to a period of Industrial Action during 2014/15 which impacted on our customers.

Managing the risk
The Company will continue to work closely with Trade Unions and employees over this period of transition.

Principal Opportunities

8. Opportunity to contribute, along with other organisations, to the resolution of **Belfast strategic drainage issues**.

Background to the opportunity
The Minister for Regional Development obtained NI Executive agreement in July 2014 to set up an interdepartmental group to develop a Strategic Drainage Infrastructure Plan to support economic growth, protect the environment and address flood risk. The Strategic Drainage Infrastructure Programme Board has been established and includes representatives of four Departments — DRD, which is responsible for water and roads; Department of Finance and Personnel; Department of the Environment, which is responsible for the environment; and the Department of Agriculture, which is responsible for rivers. NI Water has been invited to participate together with the Strategic Investment Board (SIB) and Belfast City Council. The work of the Board will initially focus on greater Belfast due to the particularly urgent need for an agreed plan for that area.

Managing the opportunity
NI Water's participation in this Department led initiative brings with it the technical knowledge and experience that will positively contribute to this programme and help meet the future waste water management needs due to increasing population and development. Our Head of Asset Strategy has recently been seconded to the Department to facilitate this initiative.

9. Opportunity to **improve resilience** in our assets to deal with an increase in extreme weather events and exploiting sustainability, green compliance and energy efficiency.

Background to the opportunity
Risks relating to the funding required to maintain our existing aged assets and increasing demands for capital replacement programme are as stated in the 'Principal Risks and Uncertainties' above. This opportunity relates to the efficient management of capital expenditure and asset maintenance cost through partnership with stakeholders to improve customer experience and environmental improvements in a cost effective matter.

Managing the opportunity
NI Water's Climate Change Forum monitors the implementation of the 'Adaptation Strategy and Action Plan' and the 'Mitigation Strategy and Action Plan' and the 'PC15 Energy Efficiency Plan'. NI Water has recently embarked on joint Project Grant Applications with Irish Water for the EU Programme for Cross-Border Cooperation 2014 to 2020 (INTERREG V) to seek part-funding for the improvement of the cross border water resource programme.

10. **Innovation** in service delivery and business processes through enabling technology.

Background to the opportunity
Through cooperation with other utility companies, business partners and universities, we continue to develop and implement new technologies to improve customer experience and efficiency in service delivery.

Managing the opportunity
We introduced tough-pads during 2014/15 to improve work management and facilitate the reporting of incidents and near misses. We also commenced the pilot of 'drone' technology which will allow assets (e.g. reservoirs) to be surveyed, and certain checks to be carried out, from a safe distance, thus reducing the risk to our employees and reducing costs.

11. Opportunity to increase the overall **well-being** of employees whilst maintaining the high standards of Health and Safety.

Background to the opportunity
NI Water applies a 'Zero-Tolerance' approach towards health and safety which is a permanent agenda item in the Board meetings. In terms of opportunity management, NI Water has a number of schemes in place which are available to employees and we see these as being a positive step towards improving staff wellbeing.

Managing the opportunity
NI Water received the RoSPA Gold Award on Occupational Health and Safety for the fifth consecutive year and was awarded the RoSPA Gold Medal. NI Water has one of the highest levels of participation in volunteering activities in Northern Ireland. This is carried out in partnership with 'Business in the Community' through our 'Cares Challenge' events.

External environment

Water and wastewater industry

NI Water is **one of more than 20 providers** of water and sewerage services **in the UK**.

Different ownership models operate across the UK water sector. The providers in England are privately owned companies, Wales has a not-for-profit company, Scotland has a statutory corporation and Northern Ireland has a Government Owned Company[7]. The water industry structure in Northern Ireland is shown below.

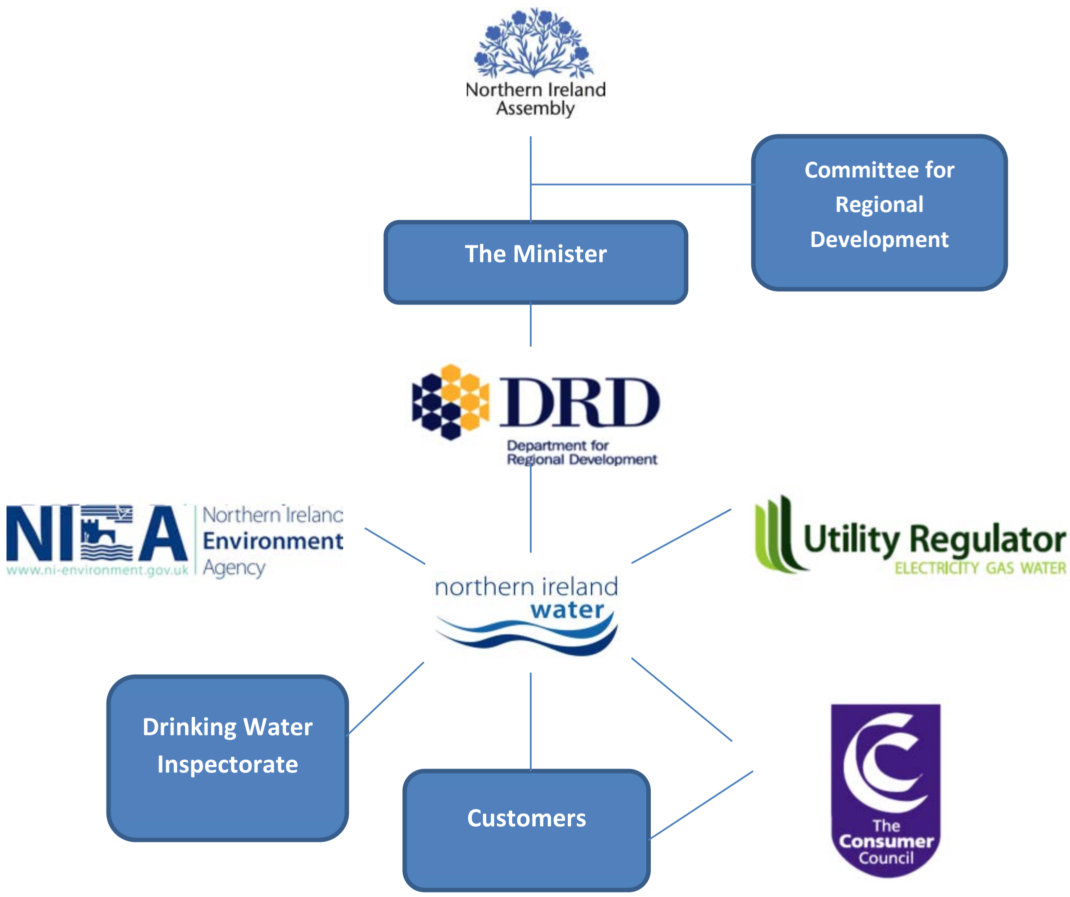
WATER UK

Further details on the UK industry structure are contained on the Water UK website:

www.

www.water.org.uk/

Water industry structure in Northern Ireland.



[7] NI Water is classified as a Non-Departmental Public Body (NDPB) for Public Expenditure purposes.

Role of Government

DRD's Water Policy and Shareholder Unit is responsible for setting water **policy**, for our **funding** through customer subsidies and lending the funds to support our investment programme.

DRD prepared a draft **Long Term Water Strategy for Northern Ireland** in June 2014. The final Strategy will be published in 2015 subject to approval by the Minister for Regional Development and the Northern Ireland Executive.

DRD also provides **shorter term direction** to the Company on objectives for each price control period. This short term direction comes in the form of **Social and Environmental Guidance**.

We work to deliver the agreed **rate of return** for the investment made by DRD. We are also focused on securing growth to the **Regulatory Capital Value**[8] as a result of investing efficiently and in the areas of highest priority.

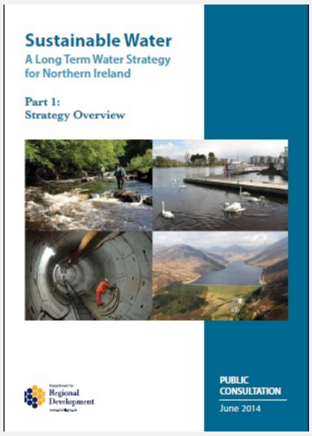
The Northern Ireland Assembly and the Committee for Regional Development, as the elected representatives, exercise an **oversight** role on the activities of DRD and NI Water.

Further details on the role of the Assembly and the Committee for Regional Development can be found at:

http://www.niassembly.gov.uk/Assembly-Business/Committees/Regional-Development/

Find out more about DRD's Long Term Water Strategy:

http://www.drdni.gov.uk/index/long-term-water-strategy.htm



Page 52
Read more about the Regulatory Capital Value.

[8] Regulatory Capital Value acts as a proxy for market value of our appointed business.

Regulators and regulatory environment

Utility Regulator

The majority of NI Water's activities are not undertaken in competitive markets and are therefore subject to **economic regulation** by the Utility Regulator.

NI Water provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator. Water regulation, as in Scotland, is on a 'one-to-one basis'.

The Utility Regulator also regulates the gas and electricity markets in Northern Ireland. Our **revenue requirements**, the amounts charged to our customers and our performance outputs are set by the Utility Regulator through a **Price Control process**.

PC15 (2015-21)

The PC15 Final Determination was rejected by the Company as there was insufficient Public Expenditure funding. We are in discussions with DRD and the Utility Regulator to consider appropriate 2015/16 outputs as a result of the reduced funding. However, the **absence of a medium term funding settlement** covering the PC15 period could result in regression in levels of service to our customers. We remain committed to working with all our stakeholders to mitigate any service regression.

Utility Regulator ELECTRICITY GAS WATER

www.

The Utility Regulator **benchmarks** NI Water's performance against the comparator set in England and Wales. The results of this analysis are published by the Utility Regulator in an annual **Cost and Performance Report**. See the Utility Regulator's latest Cost and Performance Report on NI Water at:

http://www.uregni.gov.uk/uploads/publications/Cost_and_Performance_Report_for_2013-14.pdf

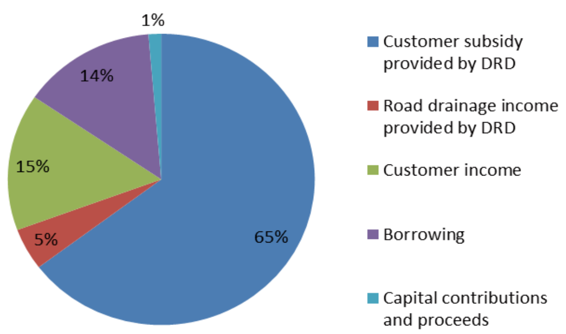
Page 107
Read more about the PC15 Final Determination.

Find out more about our Price Controls:

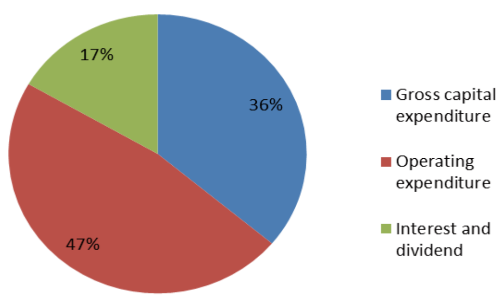
www.

http://www.niwater.com/price-control/

PC15 (year 1) sources of funding (£435m)



PC15 (year 1) expenditure (£435m)



Northern Ireland Environment Agency

The Northern Ireland Environment Agency (NIEA) aims to protect, conserve and promote the natural environment and built heritage for the benefit of present and future generations. The NIEA has **regulatory powers and responsibilities to ensure environmental compliance by NI Water**.

Drinking Water Inspectorate

The Drinking Water Inspectorate (DWI) is an expert unit within the NIEA. DWI is responsible for **monitoring and regulating the quality of drinking water**, in consultation with health and environmental health authorities.

Water Management Unit

Water Management Unit (WMU), also within the NIEA, is responsible for the **protection of water in the environment**. The WMU has established a Water Utility Regulation Group (WURG), whose primary function is to regulate discharges made by the water utility sector.

The NIEA is responsible for **controlling pollution** and **promoting sustainable development**.

See the latest drinking water quality reports at:

http://www.doeni.gov.uk/niea/water-home/drinking_water/annual_reports.htm

http://www.niwater.com/water-quality/

See the latest wastewater quality compliance reports at:

http://www.doeni.gov.uk/niea/water/regulation_of_discharges_industrial/reg_sewage.htm

Consumer Council for NI

The Consumer Council for NI is a statutory body which **represents the interests of water consumers**. Its functions include providing our customers with **advice and information**; investigating **complaints**; and undertaking **research** such as surveys of consumers' views.

See the latest report on consumer's views on water at:

http://www.consumercouncil.org.uk/water/publications-and-research/

http://www.niwater.com/reports/

Operating area

NI Water's operating area is shown below. It is **predominantly rural** with a **long coastline**. The population is around **1.8 million**. The local economy has a significant agricultural sector and is dominated by **small and medium sized enterprises**.

Over **99%** of our **raw water** comes from **surface water sources**. Around **7%** of our operating **area** is designated as of **scientific importance**.

NI Water's operating area.

Legislative and public policy environment

Public expenditure

NI Water is designated as a **Non-Departmental Public Body** (NDPB) for Public Expenditure purposes. This followed the decision by the NI Assembly to **defer the introduction of direct domestic charges**. DRD provides subsidy in lieu of domestic charging[9].

Page 18
Read more about adjusting the PC15 Final Determination for Public Expenditure allocations.

The NDPB designation requires our **regulatory funding requirements to be managed within the Public Expenditure funding constraints**. Therefore, whilst the Utility Regulator determines the expenditure necessary to deliver outputs in a price control period, the actual funding is constrained by Public Expenditure allocations to NI Water.

This situation has been **partially addressed by a Memorandum of Understanding** (MoU) between DRD and the Utility Regulator which sets out how the Public Expenditure regime and regulatory regime co-exist.

Business environment

Economic conditions

The weak economic conditions in Northern Ireland in recent years have had an impact on the financial performance of NI Water, primarily in relation to lower levels of consumption. The **consumption levels have stabilised in 2014/15** in line with improving economic conditions.

It is predicted that Northern Ireland's economy will show relatively modest economic growth in 2015 and 2016 of around 2%[10]. This would suggest that **demand should remain relatively constant**.

We have seen **input cost inflation** decrease over 2014/15, with Retail Price Inflation (RPI) falling to 0.9% in March 2015 (March 2014: 2.5%).

The main **economic factors** that could affect the Company's performance are:

- overall performance of the **Northern Ireland and world economies;**
- change in demand due to changes in our customer base; and
- unexpected changes in **input cost inflation**.

[9] Water and sewerage charges are levied on non-domestic customers.
[10] Department of Enterprise, Trade and Investment Economic Commentary, June 2015.

Outlook

In considering the key priorities for water and wastewater services in Northern Ireland, we need to understand the future opportunities and challenges we may face. Some of these are external factors which may alter the services we deliver.

Customer focus

We prioritise customers by listening to their views and building these into our plans. This ensures that our customers' needs are at the heart of our service delivery. We need to retain this focus and continue to build confidence with our customers and wider stakeholders so that we can meet the challenges that lie ahead.

Page 26
Read more about customer focus.

Climate change

Our water industry is vulnerable to the impacts of climate change, in the form of water scarcity, flooding, and more frequent extreme weather events. When planning for the future, we will consider how these changes might impact on our services and what we need to do to both adapt to changing climatic conditions and mitigate the impact of further changes in weather patterns by reducing our greenhouse gas emissions.

Page 56
Read more about climate change.

Legislation

It is anticipated that over the coming 25 years there will be new European, UK and Northern Ireland legislation aimed at improving drinking water and environmental standards and how we achieve them. We will continually monitor the introduction of new legislation and seek necessary funding to enable compliance with the legislation.

Our governance, funding and the regulatory environment

Under the current governance arrangements, the funding available to the Company is limited both by the level of Public Expenditure allocated to NI Water from DRD and the price control determined by the Utility Regulator. It is reasonable to expect that the regulatory framework will evolve through the period of this plan and there are already debates over the future governance model for NI Water. The outcome of these debates has the potential to re-shape the Company and further raise customer expectations of our performance.

Pages 18 and 92
Read more about our governance, funding and the regulatory environment.

Demographics

The 2011 census showed a continuation in the trend of increasing population in Northern Ireland. This is an important factor in our planning for the future provision of water and wastewater services. Shifts in the urban / rural split; periodic variances in economic activity and constantly changing business needs between water intensive industrial processes and the service sector, all impact on where, when and how much investment is needed to secure future water and wastewater services.

Pages 68 and 75
Read more about investing for population changes.

Innovation

The adoption of advanced science and technology in recent years has assisted us in delivering better quality services in more efficient ways. With ever increasing challenges on sustainability, efficiency and cost, we will continue to look to science and technology to seek innovative and practical sustainable solutions to improving our services and minimising costs.

Page 42
Read more about innovation.

We provide you with customer service you value and expect

Our Goal

To provide a range of essential services and associated contact channels which meet the rising expectations of our customers.

Our priorities to 2021

Expand and develop the range of ways customers can contact us.

Develop targets and measure how often we solve issues on first contact and, if we are unable to do so, we will keep customers informed about progress via their choice of available contact methods.

Measure how many repeat issues we receive, examine why we failed, and make process and system changes to continue to improve.

Measure and publish levels of customer satisfaction.

Continue to improve the accuracy of customer data to ensure the completeness of customer billing.

What our customers can expect in 2040*

We will use proven and cost effective technology to improve the services provided to customers.

We will use a range of channels to communicate with customers, which will evolve in line with changing social media trends and this will allow us to be as proactive as possible in communicating with customers.

We will have minimised the need for customers to contact us but when customers have a need to do so, they will have a choice of contact channels that meets their needs.

We will aim to resolve contacts at the first time of asking and reduce the need for repeat contacts.

We will continue to measure the services we provide and seek opportunities to continually improve and we will deliver customer satisfaction ratings that are equivalent to best in class benchmarks.

* The PC15 Company Strategy covers the period from 2015 to 2040.

Listening to our customers

Findings from the latest customer research show that **most customers are satisfied with the service provided most of the time**. Customers simply expect the service to work. Provided it does, customers rarely think about water and sewerage services or how they are provided. In other words, customers expect their water and sewerage service to be **resilient**.

Research identified that customers expect local service **'hot-spots'** to be addressed. Customers are more willing to **prioritise investment** to address local issues, such as **water supply and flooding**, which have a direct impact on daily life over environmental aspects of service such as quality of rivers.

Customers want **strategic decision making** preferring long-term solutions over short-term 'fixes'. Customers also recommended more information from NI Water in order to inform the public of what they can and cannot dispose of in the sewerage system and to **educate customers** to reduce water wastage.

Customer contact

By improving the standard of service delivery and the accuracy of customer data we aim to reduce the number of times our customers need to contact us.

We achieved our 2014/15 targets on 'calls not receiving an engaged tone', **99.99%** against a target of 99.90%.

However, we failed to achieve our 'calls not abandoned' target due mainly to higher levels of abandoned calls within our high volume call answering (HVCA) system, with a performance of **97.99**% against a target of 99%. Unlike in England and Wales, the target does not take account of the higher level of abandoned calls within a HVCA system. If NI Water adopted a similar approach to England and Wales, we would have achieved **98.69%.**

Substantial efforts have been made to **drive down call volumes**. We met our target of no more than 247,500 calls in 2014/15, receiving 230,847 calls.

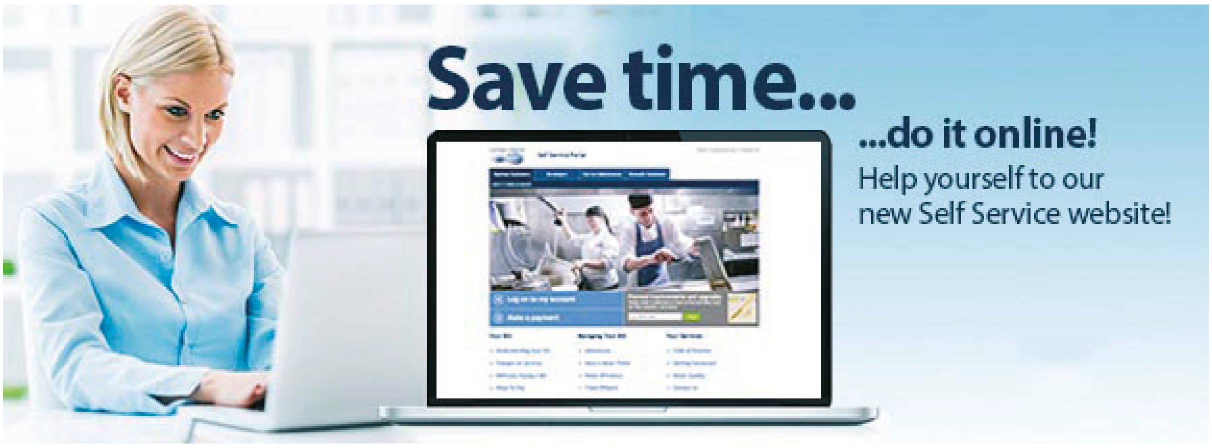
Vulnerable customers

We have increased the number of individual customers on our Customer Care Register from **2,903** in 2013/14 to **3,084** in 2014/15.

Systems improvements

We aim to implement enhancements to the online facilities available to our customers, including the ability to: access and update billing account details, make payments, request septic tank emptying and view up-to date operational information via an interactive map.

Launch of 'Self Service' for Customers



NI Water has announced the provision of additional web based services for customers. The services are aimed predominantly at business customers who have an account with NI Water and will make it easier for them to pay bills online and check their accounts. The service will also allow domestic customers with septic tanks to order their tank to be 'de-sludged'.

To benefit from the new services, customers must first register through a simple registration process – once registered, customers will be able to:

- view their account balance;
- view the payment plan of individual schedules;
- view bill and payment history;
- view desludging request history;
- process a new desludging request;
- pay a bill; and
- manage account details

The registration process is simple – just go onto the website for directions.

Customers are also invited to complete an online survey to provide feedback on their experience allowing NI Water to make further improvements to the services offered.

Customers can access the Self Service platform via the homepage of niwater.com

Major Incident Plan

The Company continues to maintain, develop and improve emergency response arrangements for responding to major disruptions to water and sewerage services. We undertook a **full scale mock incident exercise** in November 2014. The exercise was planned to practice and validate the Company's major incident management arrangements and in particular its effectiveness in responding to a **major interruption to water supply**. Training and pre-exercise briefing sessions were held for over 150 staff who participated in the exercise.

Our major incident response was enacted over December 2014 and January 2015 in response to **Industrial Action** by the Water Group of Trade Unions. Although subject to significant resource constraints, NI Water's contingency plans were generally well implemented, minimising service disruptions and delivering alternative water supplies for customers. The Company will endeavour to maximise the lessons learned from a review by the Utility Regulator and our internal review.

Major Incident Impact on Customers

Sara Venning, Chief Executive said:

"It was a difficult six weeks for the customers and employees of NI Water. Internally we've been working through issues of pension reform with the Unions and its members within the company.
I know we all regret that these issues impacted on our customers during the period of Industrial Action.

However as we emerge from this period, I want to reaffirm our common aim; that of ensuring the services we provide to the public will remain at the high standard they have come to expect over recent years. We have been through difficult times but are a team and a resilient one at that. Our focus will be on looking forward, working together to build an organisation our customers and staff are proud of."

Metering and billing

Our charges are reviewed annually by the Utility Regulator and published in our Scheme of Charges.

Accurate measured bills are central to customer account management and we had a series of performance targets for meter reading and measured billing in 2014/15:

- **99.0%** of bills to be based on actual meter reads

We achieved **99.11%**; and

- **95%** of bills to be issued within 5 working days of a meter reading:

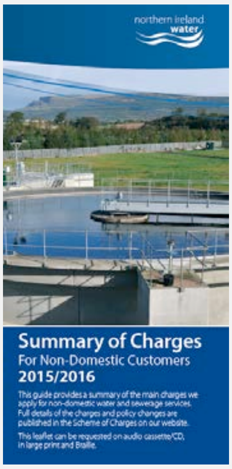
We achieved **97.1%** excluding readings requiring investigation.

We achieved **95.9%** including readings requiring investigation.

In 2014/15 we introduced a **new bill format** which has been easier for all customers to understand. We continue to maintain a reduced level of billing related contact and quicker customer payments.

During 2015/16 we will be working on making major enhancements to our customer contact and billing system and reviewing business processes to enhance our customers' experience and ensure accurate and timely billing.

NI Water's Summary of Charges:



www.

http://www.niwater.com/understanding-your-bill/

We achieved the 5 day target response time for billing contacts at **99.97%** against the target of **99.90%**.

Non Domestic Customers - we have a number of **Customer Liaison Officers** who have been visiting our agricultural non-domestic customers to engage them in understanding billing and payments. This has proved very successful. We have also enhanced our account management approach and introduced additional roles to cover other customer groups.

Customer satisfaction

Quarterly **independent market research** is carried out, through telephone surveys of 400 customers who have called us for any reason.

We will also be working with the Utility Regulator, CCNI and DRD to develop a **new Customer Satisfaction solution**. We will engage industry expertise and experience to provide actionable data to inform service improvements.

During 2014/15, we introduced the key Customer Satisfaction elements from the industry based Service Incentive Mechanism (SIM) that will **double the number of customers currently being surveyed** and cover the 'end to end' customer delivery process.

We are committed to giving our customers the service they expect, all day, every day. **If you are disappointed with our service, we want to hear from you**. We can be contacted using the information on the back cover of this document.

CCNI undertake an annual review of our complaint handling process and we work to implement any recommendations.

The **customer satisfaction surveys** were completed in each of the 4 quarters, achieving an overall average score of 4.65 out of 5. The performance was below the target of 4.75. These surveys are invaluable and we will continue to use them to identify opportunities to improve our customer experience.

We achieved the 10 day target response time for written complaints with a performance of **99.96%** against the target of **99.50%.**

Customers who are not happy with how we have dealt with a complaint or would like **independent advice**, can contact the Consumer Council:

Elizabeth House
116 Holywood Road
Belfast, BT4 1NY
Phone: 0800 1216022
Text Relay Service:
028 9067 2488
Fax: 028 9065 7701
Email: complaints@ consumercouncil.org.uk
www.consumercouncil.org.uk


We provide you
with clean, safe
water to drink

Our Goal

To provide complete confidence to our customers in the safety and quality of their drinking water.

Our priorities to 2021

Continue to provide high quality water which complies with statutory standards and obligations.

Address pockets of our water distribution network that do not currently meet customer expectations in relation to taste, smell and appearance.

Reduce customer contacts regarding water quality.

Implement all Drinking Water Safety Plans.

Develop and agree with stakeholders a joined up approach to the removal and management of lead in public and private water supply system.

What our customers can expect in 2040

We will continue to provide high quality water for the protection of public health which complies with statutory standards and obligations.

We will have well developed Drinking Water Safety Plans which identify risks to drinking water quality and address the risks through focused investment.

We will have invested in the latest technology to monitor our asset performance. This will include real time automated monitoring of water quality allowing us to identify and rectify problems before service is affected.

We will move from reactive to proactive asset maintenance seeking to maintain our assets before failures affect customers.

We will have removed all lead pipes from the NI Water system and will be continuing to work with stakeholders to manage the remaining lead pipes in customers' properties.

Water Quality Compliance

We work hard to provide our customers with high quality drinking water. We carry out over **210,000 tests every year** to make sure our water is clean and safe.

The 2014[11] compliance levels for drinking water at the customer tap are at **some of their highest levels**, with a Mean Zonal Compliance (MZC) of 99.84%.

The compliance for 2014 demonstrates the continued high quality drinking water provided to the people of Northern Ireland and **exceeds the requirement of DRD's Social and Environmental Guidance** of 99.7%.

We have a wide range of information leaflets on water quality:

www.

http://www.niwater.com/the-services-we-offer/

Find out more about drinking water quality:

www.

See the latest drinking water quality reports at:

http://www.doeni.gov.uk/niea/water-home/drinking_water/annual_reports.htm

http://www.niwater.com/water-quality/

Drinking Water Safety Plans

We use Drinking Water Safety Plans (DWSP) to proactively **highlight investment needs** for those water supply systems which are likely to fail any parameters or where new potential risks to water quality have been identified.

We use **DWSP risk assessments** to assist us in planning appropriate investment in the future.

[11] This target is measured on a calendar year basis.

£5m investment in Dorisland Water Treatment Works

Householders in the Carrickfergus area are to benefit from an investment of approximately £5m in a local water treatment plant. Regional Development Minister Danny Kennedy visited Dorisland Water Treatment Works (WTW) to view progress on a major improvement programme. Upgrade work at the plant involves the installation of new filters, which will ensure the drinking water provided to Carrickfergus and the surrounding area is of the highest standard and will continue to comply with EU drinking water quality standards well into the future. It is expected that the work will be completed by the end of 2015.

The Minister also welcomed the upgrade work at nearby Killylane WTW, which forms part of NI Water's ongoing Base Maintenance Programme to refurbish minor treatment plants across Northern Ireland.

Danny Kennedy said:

"As a result of this very significant investment in the area, customers will directly benefit from improved water quality. The scheme will also greatly improve the overall local water infrastructure and will increase NI Water operational efficiencies in terms of a reduction in running costs and reduced energy use."

NI Water's Head of Water Capital Procurement for both schemes added:

"The £5m investment at Dorisland and the £1m investment in the Killylane plant are part of NI Water's overall focus on providing an essential infrastructural investment programme. These projects are good news for customers in the areas, as both plants will meet the needs of the growing local population and ensure compliance with all current National and European environmental regulations."

The upgrade work at Dorisland and Killylane WTW are just two of many projects making up an investment of approximately £2m per week by NI Water to deliver a 21st century infrastructure for the whole of Northern Ireland.

NI Water staff pictured with the Regional Development Minister Danny Kennedy on site at Dorisland Water Treatment Works.

Lead management

The end of 2013 saw a reduction in the Regulatory limit for lead in drinking water. We will continue to implement our strategic **Asset Standard for Management of Lead** and **lead pipe replacement programme** focused on improving compliance with the EU Lead standard (10µg/l).

We recognise that we need to work together with DRD, DWI and other stakeholders to develop and implement a strategic approach for addressing lead compliance issues associated with private supply pipes and domestic distribution systems. We have produced an **Asset Standard for Management of Lead** and input into DRD's Long Term Water Strategy.

We continue to prioritise Vulnerable Customers to improve lead compliance and though our **Lead Pipe Replacement Programme** we are working to identify areas with risk of lead pipes to target our investment.

Customer satisfaction

Discolouration can arise when we carry out essential maintenance work, or, from the condition of old iron mains within our supply network. We use our customer contacts to help target investment and employ operational best practice to **minimise the frequency of discolouration events**.

During 2014 we reported **5 water quality events due to discolouration and appearance** complaints to the Drinking Water Inspectorate.

Page 10
Read more about water quality events.

Analytical Services

Our laboratories provide analytical services to a **wide range of customers** across a variety of sectors, including industrial customers in Northern Ireland, County Councils in the Republic of Ireland and Non-Governmental Organisations.

We provide a full range of **microbiological, chemical** and **cryptosporidium analytical services** for drinking water, wastewater and industrial effluents.

Find out more about how our analytical services could benefit your organisation:

http://www.niwater.com/analytical-services/

We seek to give you value for money

Antrim Wastewater Treatment Works, County Antrim.
Image courtesy of Alan Lavery Photograpy.

Our Goal

To deliver services which our customers consider to be affordable and offer excellent value for money. We want our bills to compare favourably with equivalent companies in England and Wales.

Our priorities to 2021

Continue to reduce our costs across all areas of our business to close the efficiency gap to the England and Wales comparator companies.

Keep customer bills stable in real terms.

Improve our Overall Performance Assessment to highest levels ever demonstrating improving levels of service.

What our customers can expect in 2040

We will be delivering services that customers consider affordable and offer excellent value for money.

We will have embraced innovation and new technology to improve the services we deliver and further reduce our costs.

Our business efficiency will be on a par with the performance of the better performing water and sewerage companies in Great Britain.

We will be offering a range of tariffs which are capable of being adapted to reflect the activities of our customers.

We will have transparent billing with a range of payment options to suit our customers.

Customer bills

The cost of supplying water and sewerage services is around £435m per year[12]. These costs are recovered from customers through customer bills[13]. To the extent that it is within our control, we will aim to ensure that future bill increases should not exceed general inflation.

NI Water Announces First Increase in Water and Sewerage Charges in Three Years

NI Water announced changes to its non-domestic water and sewerage charges. From 1 April 2015 charges will increase, on average, by 2.4% for the incoming financial year.

This is the first increase in water and sewerage charges in three years. In the previous two consecutive years, NI Water has reduced all non domestic charges. Non domestic charges were reduced on average by 2.5% in 2013/14 and then by a further 4% in 2014/15.

The increases are necessary due to unavoidable external factors impacting on operating costs and the cost of necessary improvements to the water and sewerage infrastructure to meet standards and improve quality for customers.

NI Water's Director of Finance & Regulation, Ronan Larkin said: "We are conscious that economic conditions continue to be difficult for our customers and so we have worked hard to minimise any increase in tariffs for our customers, insofar as we have been able to.

It is worth noting business customers will still be paying 5.6% less, on average, for their water and sewerage services than they were in 2012. We have worked closely with the Utility Regulator and in conjunction with the Consumer Council for Northern Ireland (CCNI) to ensure the increase is as low as possible and represents good value for our customers.

A typical unmeasured bill will increase annually by approximately £16 while the smallest measured (metered) bill will increase by £4. The largest measured company will see an annual increase of £45."

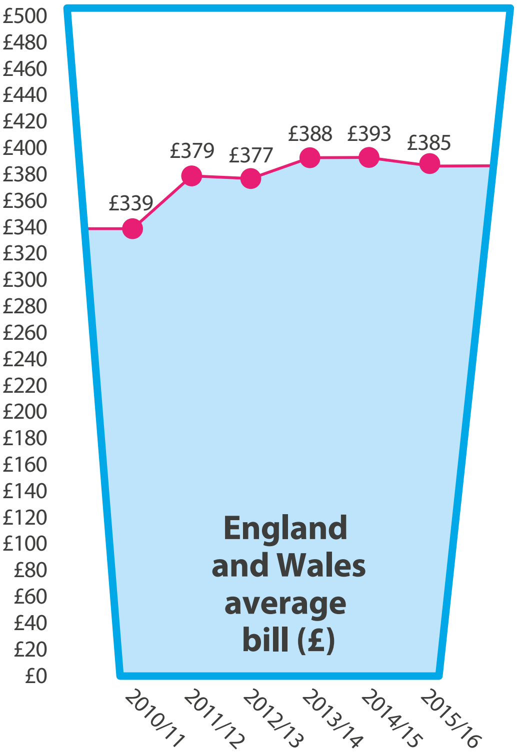
[12] Based on funding for year 1 of PC15.

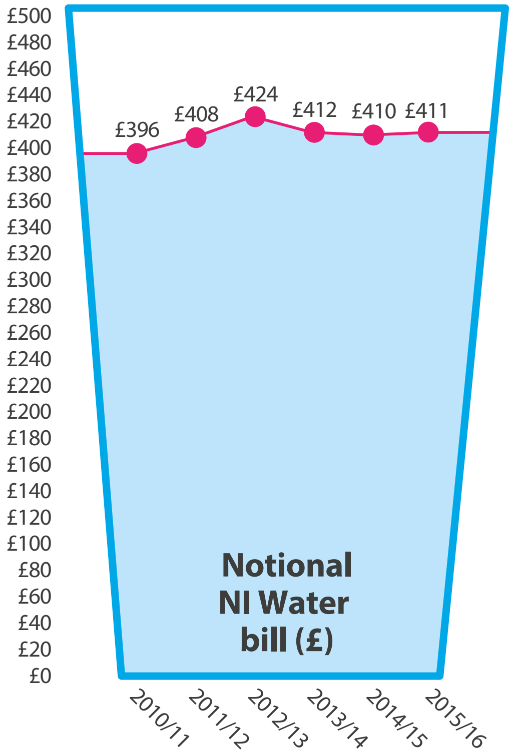
[13] The bills for domestic customers are notional as DRD meets these costs through a Government subsidy, which is provided by DRD as third party consideration in lieu of the Executive's decision to defer domestic charges. DRD also provides loan notes to fund the capital investment programme and other amounts are recovered from DRD Transport NI for roads drainage.

Customer bills are set in advance of each charging year. The 'notional' NI Water bill (in the absence of domestic charging) for providing **water and wastewater services to domestic customers** is £411 in 2015/16. This compares with an England and Wales average of £385.

Page 30
Read more about improving customer billing.

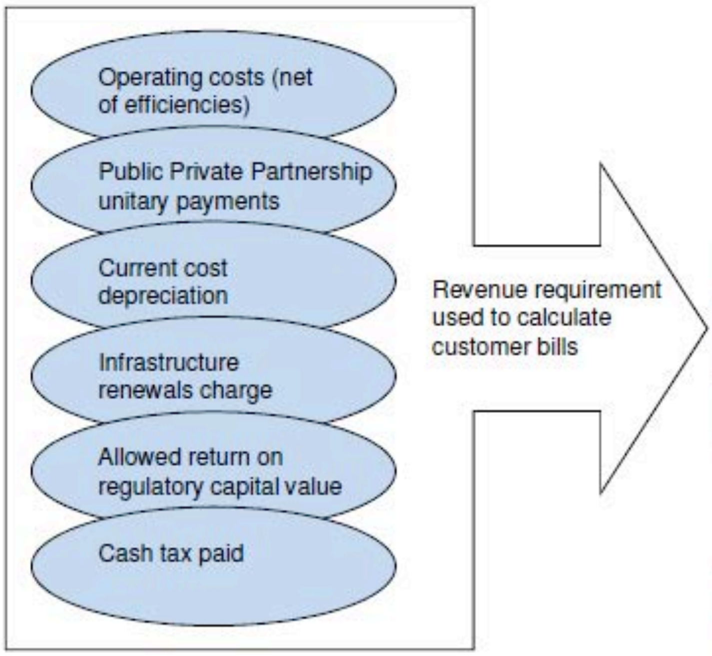
Comparison of 'notional' domestic customer bill





Customer bills are made up of a number of 'building blocks' which cover running costs, capital investment and a return based on the size of our regulated asset base (regulatory capital value).

Building blocks for customer bills



	2015/16
Average English and Welsh bill	£385
Notional NI Water bill*	£411

* Proposed notional NI Water bill does not include the costs of domestic billing and domestic debt recovery costs.

Efficient delivery of services

Our focus on controlling operating expenditure and working more efficiently contributed towards **a reduction in running costs** of **4%** (**£5m**[14]) in 2014/15, and a **33%** **(£66m**[15]**) reduction in running costs since the start of the PC10** price control in 2010/11. We are targeting further reductions in running costs across PC15 as set out in the Final Determination.

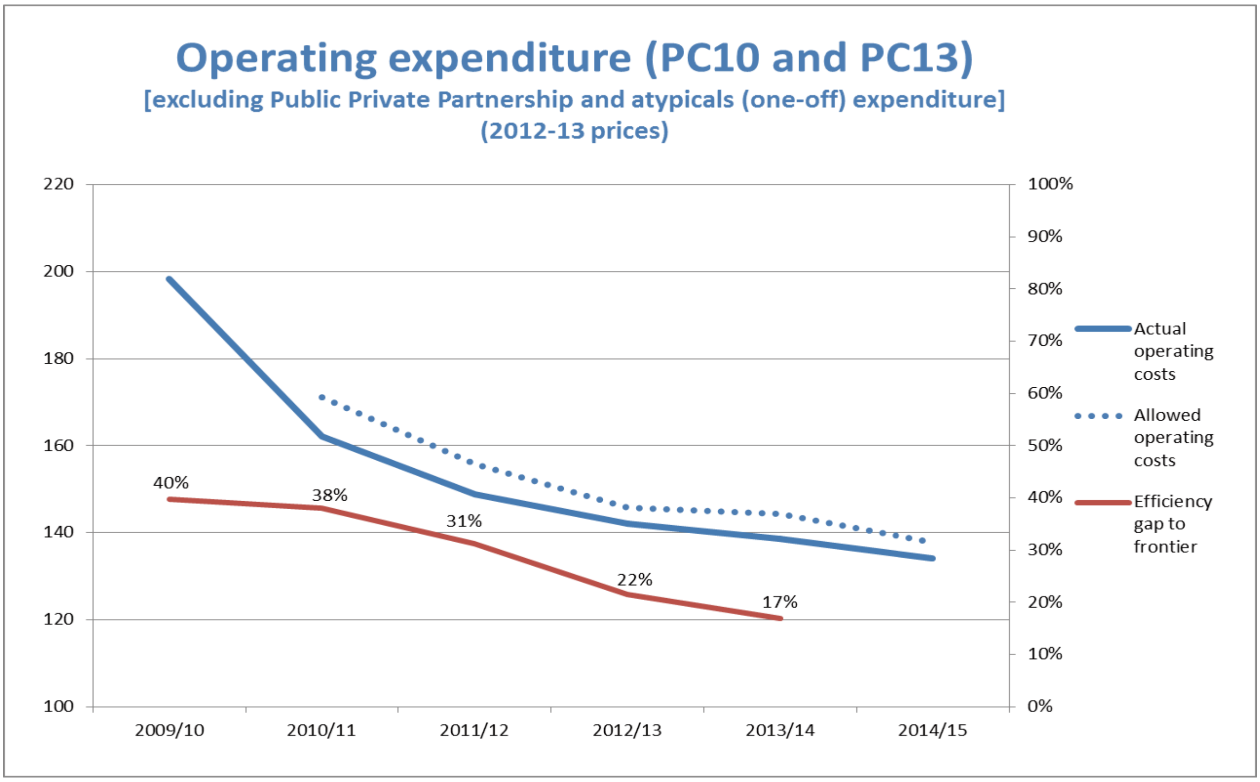
We have **more than halved the efficiency gap** with the leading edge (frontier) water and wastewater companies in England and Wales from 49% in 2007/08 to 17%[16] in 2013/14.

The Utility Regulator assesses the efficiency of NI Water on an annual basis in its **Cost and Performance Report**.

See the latest Cost and Performance Report on NI Water at: http://www.uregni.gov.uk/news/ur_publishes_ni_water_cost_and_performance_report_2013-14

[14] Based on an approach used by the Utility Regulator. Details of this approach are contained within the Utility Regulator's Cost and Performance Report.
[15] Based on a reduction in operational costs between 2009/10 (baseline year) and 2014/15 using 2012/13 prices.
[16] Subject to determination by the Utility Regulator. Measured 1 year in arrears.

Operating expenditure in PC10 and PC13



Page 6
Read more about levels of service to customers as measured by the OPA score.

We are committed to investment in innovation through new systems and technology that provide benefits in terms of **improving service** performance or **reducing operational costs**, whilst **improving** the **resilience** and **security** of essential control and monitoring networks.

We have developed and implemented a new **Research, Development and Innovation Strategy.** This sets out how technical needs and opportunities are identified, before research and development, or innovation projects, are then initiated.

Over 2014/15, our research, development and innovation programme projects have included:

- developing **instrumentation, control and automation signature designs**;
- providing **radar rainfall data software** that will convert raw radar data into a format which can be viewed graphically and used for calculation of return periods for storm events at specific locations;
- developing a network distribution control system to permit **remote controls at key service reservoirs**, allowing the demand from the upstream water treatment works to be smoothed. This improves drinking water quality and reduces costs; and
- participating in an EU INTERREG IVA Project "ANSWER" using **willows to develop low carbon and environmentally sustainable solutions** for dealing with organic waste.

Together with other UK water and sewerage companies, **we employ research bodies** such as the United Kingdom Water Industry Research Limited (**UKWIR**) to provide a collaborative programme of research tailored to suit the needs of the UK water industry.

Find out about our research partners:

UKWIR

http://www.ukwir.org/site/web/content/home

Our 2015/16 research, development and innovation programme includes:

- development of **intelligent Leakage** (iLeakage) monitoring systems using the increased functionality available within telemetry outstations;
- exploring **energy recovery options** from our water network; and
- investigation of new **energy efficient wastewater treatment processes**.

We are keen to **support other organisations** involved in water and wastewater research, development and innovation activity, and whose work would benefit from access to our assets for pilot projects and / or the collection of samples

For research, development and innovation related access enquiries please contact:

Research Development and Innovation Manager
NI Water
Ballykeel Office, 188 Larne Road
Ballymena, Co Antrim, BT42 3HA
Telephone: 028 9035 4813, ext 53216

Financial performance

NI Water, as a regulated water company, is required to prepare two sets of accounts to report on financial performance:

Statutory Accounts covering both our appointed (regulated) and non-appointed (non-regulated) businesses prepared under International Financial Reporting Standards (IFRS); and

Page 117
Read our Statutory Accounts.

Regulatory Accounts for our appointed (regulated) business prepared under the Regulatory Accounting Guidelines (UK GAAP based).

Page 178
Read our Regulatory Accounts.

Our **appointed business** relates to the provision of certain water and wastewater services under our Instrument of Appointment (the Regulatory Licence). We are the monopoly supplier of these services.

Our **non-appointed business** operates in competitive markets and is ring fenced from our appointed activities to prevent cross subsidisation. **Non-appointed activities** include septic tank emptying, vehicle maintenance and rental of aerial masts to the telecommunications sector.

The **Regulatory Accounts** are specifically designed for the water industry.

Statutory Accounts

Statement of Comprehensive Income

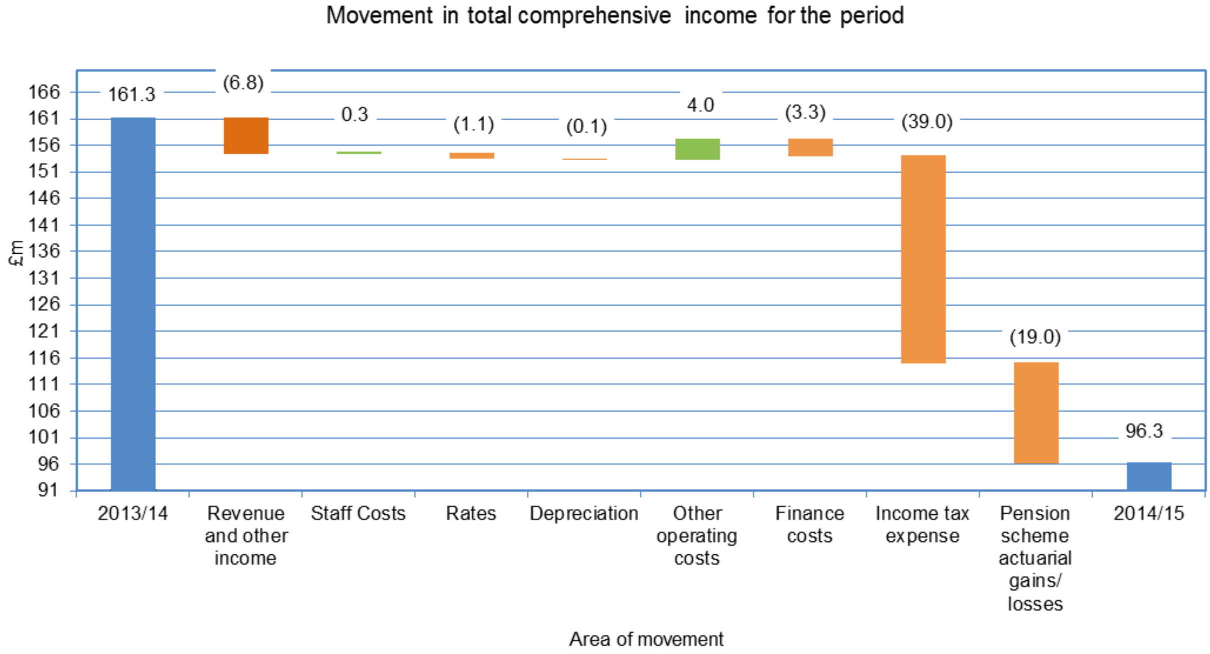
Our Statement of Comprehensive Income as presented on page 119 is summarised below.

The **£107.4m profit** for the year is an accounting profit and provides no additional spending power either to NI Water or DRD.

Summary Statement of Comprehensive Income

	Year to 31 March 2015 (£m)	Year to 31 March 2014 (£m)
Revenue	**425.6**	432.7
Results from operating activities	**193.1**	196.8
Net finance charges	**(61.6)**	(58.3)
Profit before income tax	**131.5**	138.5
Income tax (expense) / credit	**(24.1)**	14.9
Profit for the year	**107.4**	153.4
Other comprehensive (expenditure) / income, net of income tax	**(11.1)**	7.9
Total comprehensive income for the period	**96.3**	161.3

The movement in total comprehensive income is summarised below.



Revenue

Domestic consumers are not charged directly for water and sewerage services. As a result, **NI Water is dependent on government subsidy for over 66% of its funding**.

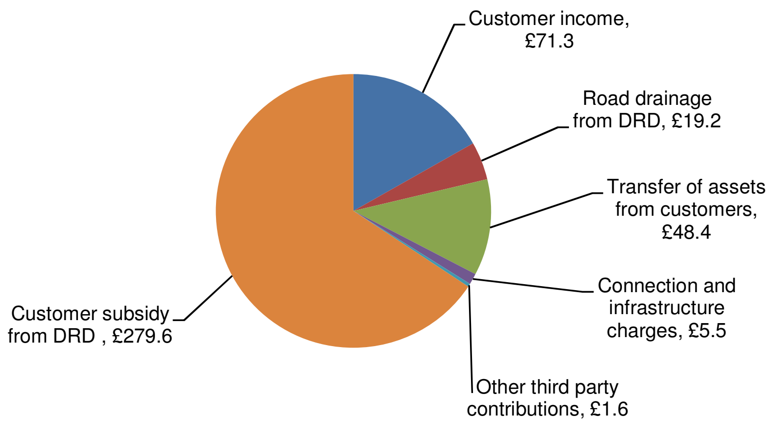
Revenue was **£425.6m** for the year to 31 March 2015 (2014: £432.7m). Included in revenue was £298.8m (2014: £297.3m) received from DRD, being subsidy of £279.6m and road drainage charges of £19.2m.

The remaining components of revenue are measured and unmeasured charges, transfers of assets from customers, connection / infrastructure charges and other third party contributions.

The **customer subsidy** from Government covered the full domestic charge and this arrangement will remain in place in 2015/16.

The **increase in the customer subsidy in 2014/15** was due to a combination of changes in the notional household tariffs (water tariff increase and sewerage tariff decrease) and increases in the total number/capital valuation of the customer base.

Sources of revenue 2014/15 (£m)



Figures in pie chart may not add due to rounding.

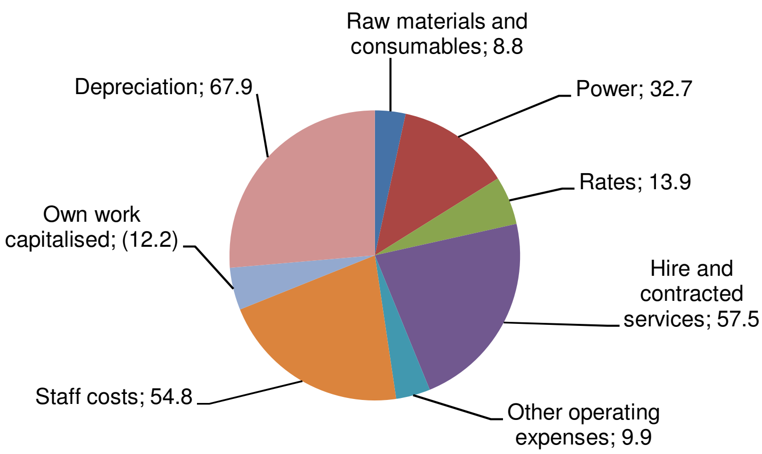
Operating activities

Operating expenses in 2014/15 of **£233.1m** (2014: £236.2m) decreased from last year. The decrease primarily resulted from reductions in power, materials and staff costs offset in part by higher rates costs.

NI Water is one of the largest users of electricity in Northern Ireland. We spent around **£33m** on **power** in 2014/15, of which around 50% is used to pump water and wastewater.

Pages 43, 47, 57 and 58
Read more about the use of innovation and new technology to reduce our operating expenses.

Operating expenses 2014/15 (£m)



Figures in pie chart may not add due to rounding.

Energy Efficiency Programme

The Energy Efficiency Programme has delivered around £1.3m reduction in energy costs over PC13. The Energy Efficiency Programme is structured under three main themes: use less, buy less and buy better. Below are examples of projects which are being taken forward under these themes.

Typical 70 kW Water Turbine

Wastewater Process Optimisation Project (Use Less):
This project looked at optimising some of the smaller wastewater sites. The project provides Wastewater staff with the ability to optimise aeration, return flows and mixing among other elements to provide a more efficient operation of the assets. It is estimated that when the first phase of this is complete the project will have delivered a £150k to £200k reduction in energy costs.

Raw Water Electricity Generation (Buy Less):
This project which will see the installation of up to 10 new Raw Water Hydro Turbines at a number of facilities across NI Water. It is estimated that this project will deliver a £750k reduction in energy costs.

Culmore WwTW Land Fill Gas Generation (Buy Better):
NI Water has entered into a Power Purchase Agreement to purchase electricity from a nearby Landfill Gas Generation plant. This electricity is transferred via a private wire high voltage cable to the Culmore wastewater treatment works (WwTW). This landfill generation plant will provide a significant amount of electricity for the works at a much reduced rate. The rate for electricity is linked to RPI and also linked to the prevailing price of grid electricity at another reference site to ensure that NI Water consistently purchases electricity at a cost less that from the Grid.

Electricity purchased from Landfill gas generation is used at Culmore WwTW

Results from operating activities before interest for the year was **£193.1m** (2014: £196.8m).

Finance income and costs

The net finance costs are primarily due to **interest** on our borrowings of **£41.5m** (2014: £37.5m) and on our **PPP liabilities** of **£20.4m** (2014: £20.6m) offset by net finance income on the pension fund **£0.2m** (2014: net costs £0.3m) and bank interest received of **£0.1m** (2014: £0.1m).

NI Water's PPP providers are **incentivised to reduce the PPP costs** and financial penalties are in place within the contracts for under performance.

Read more about our PPP schemes:
http://www.niwater.com/alpha-project/
http://www.niwater.com/project-omega/

Taxation

The **tax charge** for the year was **£24.1m** (2014: tax credit of £14.9m). The tax credit in 2014 resulted from increased capital allowances following an agreement between HMRC and the water industry, and a reduction in the tax rate from 23% to 20%. The effective tax rate for the year to 31 March 2015 was 18.4% (2014: (10.6%)).

Given the capital allowances available on our capital investment programme we are not presently required to pay **cash tax** in relation to our core revenue streams.

Distributions

The Board will consider a proposal to declare a **dividend of £25m** in July 2015 (2014: £24m).

The dividend to DRD represents a **return to the tax payer** on the amount invested in the Company.

Capital structure

The Statement of Financial Position at 31 March 2015 as presented on page 118 is summarised below.

Total assets increased by 5.6% to **£2,711m** (2014: £2,568m).

Our **net debt**[17] figure was **£1,162.8m** at 31 March 2015 (2014: £1,127.8m).

Gearing (the ratio of net debt to equity and net debt) decreased to 49.4% (2014: 50.2%).

The **main movements** in the financial position items were increases in **property, plant and equipment** of **£144.4m** (2014: £162.7m) relating to our Capital Investment Programme offset by increases in net debt.

Page 50
Read more about our Capital Investment Programme.

Summary Statement of Financial Position

	At 31 March 2015 (£m)	At 31 March 2014 (£m)
Total non-current assets	**2,672.7**	2,532.8
Total current assets	**38.1**	35.2
Total Assets	**2,710.8**	2,568.0
Equity	**1,193.4**	1,120.6
Total non-current liabilities	**1,376.9**	1,314.3
Total current liabilities	**140.5**	133.1
Total liabilities	**1,517.4**	1,447.4
Total equity and liabilities at 31 March	**2,710.8**	2,568.0

[17] Refer to notes 18 and 20 in the Statutory Accounts. Net debt consists of loans of £947.6m (2014: £911.6m) and finance leases of £216.1m (2014: £218.9m) less cash and cash equivalents of £0.9m (2014: £2.7m).

Liquidity

Operating activities generated a net cash inflow of **£220.2m** (2014: £213.6m). Net cash outflows of **£169.2m** (2014: £169.0m) related to investing activities. Net financing activities created a cash outflow of **£52.7m** (2014: £62.7m).

Our **working capital** requirements are met from a committed working capital facility of £20m and from available positive cash balances. Interest is accrued on the working capital facility at floating interest rates based on London Inter-bank Offered Rates (LIBOR).

Pension funding

The pension scheme was valued at a liability of £11.6m at 31 March 2015 (2014: surplus of £3.5m). This was made up of a total market value of assets of £204.1m (2014: £171.0m) less actuarial value of liabilities £215.7m (2014: £167.5m). The movement to a liability has been driven primarily by actuarial losses in the year arising from a decrease in the discount rate assumption offset by a decrease in the inflation rate assumption used to calculate the scheme liabilities.

Investing activities included the acquisition of **property, plant and equipment** of **£170.6m** (2014: £170.3m), proceeds from the sale of property, plant and equipment of £1.0m (2014: £1.2m) and interest received of £0.1m (2014: £0.1m).

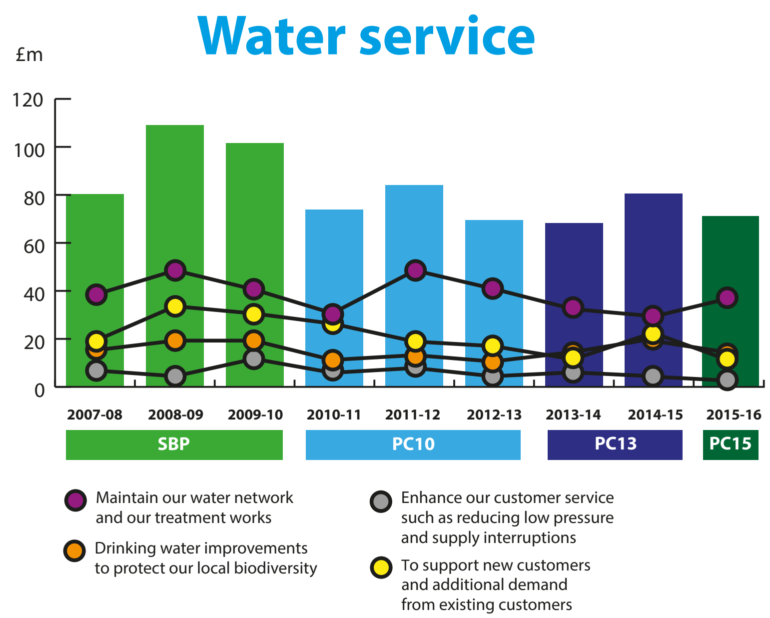
Working capital represents the funds available for day to day operations. It includes stocks, trade debtors and trade creditors.

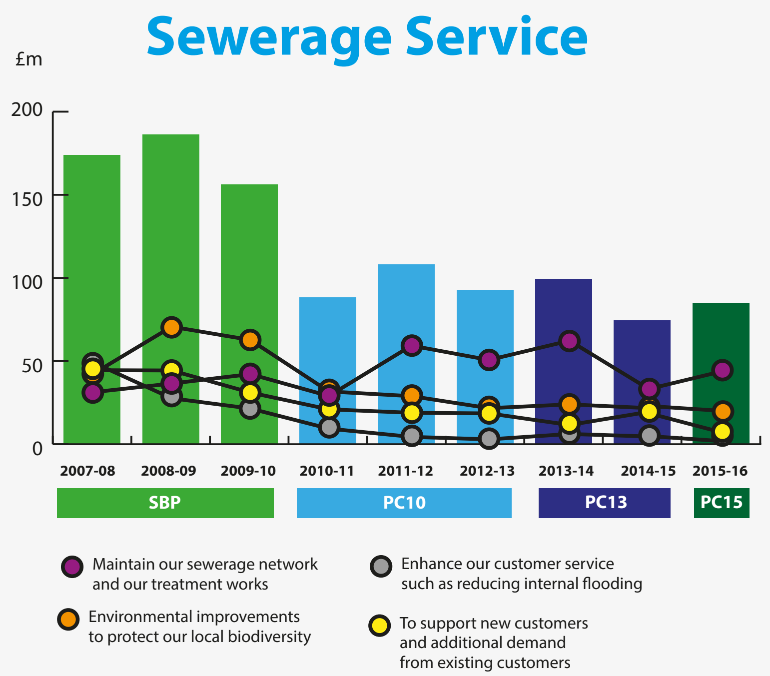
Dividends paid to DRD during the year totalled **£24m** in respect of the previous financial year (2014: £29m in respect of 2013).

NI Water's pension scheme is a **separate legal entity** which is run by a Board of Trustees.

Investing in our water and wastewater infrastructure

We have invested **£1.7 billion** in Northern Ireland's water and sewerage infrastructure since our formation in 2007/08:





The average planned investment over PC13 was around £160m per annum and £155m of investment is planned for year 1 of PC15[18]. The Company spends around **£85m a year on maintaining** the current assets. Around a further **£70m a year** is spent to **deliver quality enhancements, improve service and accommodate growth**. The current levels of asset maintenance are likely to continue to be required in the future and may increase as the assets continue to age.

Around **£159m** of capital investment was delivered during 2014/15 (2014: £168m). This included the completion of **18 Wastewater Treatment Works**, remediation of **39 unsatisfactory intermittent discharges** and laying approximately **223km of new and replacement water mains**.

Based on UK GAAP excluding grants and contributions.

Minister Visits £2m Annacloy Wastewater Project

NI Water staff, contractor staff and Minister Kennedy pictured on site at Annacloy WwTW.

Regional Development Minister Danny Kennedy visited the £2m project which will improve wastewater treatment in Kilmore and Annacloy, Co Down.
NI Water is converting the existing wastewater treatment works (WwTW) in Kilmore to a pumping station (PS); laying a new pumping main to take flows from the new Kilmore PS to Annacloy WwTW and carrying out extensive upgrade work at Annacloy WwTW.

Minister Kennedy on site with staff from NI Water and the contractor.

[18] Based on £155m funding for year 1 of the PC15 Final Determination. Under review given reduced levels of Public Expenditure.

Regulatory Accounts

Overview

The Regulatory Accounts reflect **the economic framework** in which NI Water is regulated. The Regulatory Accounts are **adjusted for inflation** and provide the Utility Regulator with a **comparable measure** of the real costs of supplying services to customers; a realistic measure of asset values and returns on those assets; and are suitable for comparative purposes with other water and sewerage companies.

The Regulatory Accounts are prepared in accordance with the Regulatory Accounting Guidelines. The regulatory Price Controls are prepared on the same basis.

The current cost Regulatory Accounts include adjustments for inflation. Failure to make such adjustments in **capital intensive industries with long asset lives** would result in understated asset values, overstated profits and overstated returns on those assets.

Non appointed business activities generated **£5.7m of income** (2014: £5.2m) resulting in a profit before tax and dividend for non-appointed activities of £2.1m (2014: £1.6m).

Regulatory Capital Value (RCV)

The RCV is the value of the appointed business which earns a return on investment. The RCV is increased each year by new investment and reduced by the amount of the asset base which has been used up in the year.

The RCV is often used by the investment community to determine the **market value of the appointed business.**

Regulatory Capital value (RCV)

	At 31 March 2015 (£m)	At 31 March 2014 (£m)
Prior year closing RCV	**1,948.8**	1,812.8
Indexation and other adjustments	**38.2**	52.3
Opening RCV	**1,987.0**	1,865.1
Capital expenditure	**129.2**	137.3
Infrastructure renewals expenditure	**33.8**	34.1
Infrastructure renewals charge	**(33.8)**	(34.1)
Grants and contributions	**(6.0)**	(5.8)
Depreciation (including capital grants)	**(42.3)**	(46.7)
Disposal of assets	**(6.6)**	(1.1)
Closing RCV (pre regulatory adjustments)	**2,061.3**	1,948.8
Regulatory adjustments	**(15.8)**	-
Closing RCV	**2,045.5**	1,948.8
Average RCV	**1,997.2**	1,880.8

Differences from the Statutory Accounts

Key differences between the Regulatory (UK GAAP based) and Statutory (IFRS) accounts include:

- **assets transferred from customers** treated as income in the Statutory Accounts and as a deduction to fixed assets under the Regulatory Accounts;
- **PPP contracts** are included in our balance sheet in the Statutory Accounts. The Regulatory Accounts exclude the Omega and Kinnegar PPP contracts from our balance sheet; and
- **infrastructure renewals accounting** is used in the Regulatory Accounts but not permitted in the Statutory Accounts. It reflects the renewals expenditure to maintain our infrastructure assets.

The treatment of asset transfers from customers as income under IFRS created a **'boost' to statutory profits** of **£55.5m** (2014: £66.2m).

Infrastructure assets are **mainly underground systems** of mains and sewers, impounding and pumped raw storage reservoirs, dams, sludge pipelines and sea outfalls. Due to their **long useful lives**, the infrastructure assets are treated as a **single system** and an **Infrastructure Renewals Charge** (IRC) is made to reflect the system's gradual replacement.

Page 192
Read more about infrastructure renewals accounting.

Page 183
Read more about the reconciliation between the Statutory and Regulatory Accounts.

Atypical operating expenditure items

We consider the following items to represent atypical and re-organisational operating expenditure in accordance with Regulatory Accounting Guideline 3.06 (RAG 3).

Atypical items are deemed to be **'one off'** in nature. They are considered by the Utility Regulator when undertaking comparative efficiency analysis.

Atypical and re-organisational operating expenditure items

	Year to 31 March 2015 (£m)	Year to 31 March 2014 (£m)
Business improvement programme	**1.6**	1.3
Voluntary Early Retirement / Voluntary Severance schemes	**0.7**	1.2
Total	**2.3**	2.5

We adapt to deal with the effects of climate change

Our Goal

We will adapt our activities to deal with the potential consequences of climate change while substantially mitigating our own 'carbon footprint'.

Our priorities to 2021

Invest in our key water and wastewater treatment works and other critical sites to improve flood resilience.

Develop a programme which continues to work towards separating storm water from the sewerage system.

Invest in energy conservation / reduction measures with a particular focus on the larger energy consuming facilities.

Expand our use of sustainable wastewater treatment solutions which protect the environment, improve carbon efficiency and reduce operating costs.

We will reduce our carbon footprint.

We will explore options to use renewable energy on our sites.

What our customers can expect in 2040

We will have carefully developed our asset base to be resilient to the challenges presented by increasingly extreme weather events.

Our greenhouse gas emissions will have steadily reduced from current levels. We will do this through the successful implementation of a number of strategies to reduce usage of fossil fuels, increase utilisation of 'green energy', and reduce emission of greenhouse gases (such as methane and nitrous oxide) from treatment processes and sludge.

Our land and assets, and the wastewater that we collect and treat, will be used to generate renewable energy in all locations where it is economically viable.

The nutrients in the wastewater that we collect and treat will be utilised to assist Northern Ireland's agricultural industry to increase food security and to grow renewable energy crops.

Planning

We have already started preparing the business for the challenges posed by climate change. This surrounds understanding of climate change impacts and risks within Northern Ireland and promoting the adaptation actions necessary to address these.

Adaptation

We will maintain and protect essential services to customers by adapting to the negative impacts, while taking advantage of any benefits that a changing climate may bring. We are looking to adapt our assets and operations to ensure that our services can always be delivered, irrespective of the effects of a changing climate.

Our **Climate Change Adaptation Strategy and Action Plan** sets out how we will maintain and protect essential services to customers by adapting to the negative impacts (risks), whilst also taking advantage of any benefits (opportunities) that a changing climate may bring. The outputs have been used to inform NI Water and DRD's input into the **Northern Ireland's first Climate Change Adaptation Programme**, which is being coordinated by Department of the Environment (DOE).

During 2014/15 we commenced work on developing a **stormwater separation** pilot programme. This will assess ways of removing stormwater from the combined sewer network so that it can better cope with the more intense storms. Delivery of the £5m programme will commence in 2015/16.

We worked with DRD, CCNI, DRD and the Utility Regulator to complete development of technical guidance for the first **Water Resource and Supply Plan (WRSP)** which will bring together Water Resource Management and Drought Management Plans.

Climate Northern Ireland

NI Water is a **member of Climate Northern Ireland's steering group**. This is a network devoted to increasing the understanding of climate change impacts and risks within Northern Ireland, and promoting the adaptation actions necessary to address these.

www.
http://www.climatenorthernireland.org.uk/

The detailed action plan includes actions to address around **200 potential risks and opportunities caused by Climate Change**.

When complete in 2017 the WRSP will set out the investment needed by NI Water to **maintain the water supply / demand balance for a 25 year period**.

During 2014/15 NI Water identified a number of ways to promote the increased use of **Sustainable Drainage Systems (SuDS)** in new developments. During 2015/16 we will work with the members of NIEA led NI Stormwater Management Group to develop and agree the NI responsibility for maintenance and adoption of soft SuDS, and to consider and agree Planning Policy guidance for issue to developers.

SuDS reduce the risk of flooding in downstream catchments by **'slowing down' surface water drainage** to prevent overload of drainage systems.

Page 62
Read more about Sustainable Catchment Area Management Planning to protect raw water quality for climate changes

Mitigation

We are **implementing a detailed climate change mitigation strategy**, the aims of which are to reduce the production of **climate change gases** from our operations and to become more **energy efficient**.

The following are examples of the activities being undertaken:

- operation of **four hydro-electric power** generation plants;
- installation of additional **Hydro Turbines** at eight sites;
- **reducing the energy used in aeration** at wastewater treatment works through installation of improved controls and air distribution systems;
- **consideration of carbon emissions** in NI Water's 'Capital Investment Appraisal System', which enables environmental impact to be more fully considered in the economic appraisal of capital investment projects;
- reducing the **energy used in pumping** through focused refurbishment and replacement of major pumps;

We are currently undergoing the process of re-accreditation under the **'Carbon Trust Standard'**. To achieve the standard, organisations must:

- Measure their carbon footprint;
- Meet an absolute reduction in emissions; and
- Demonstrate that it is managing carbon in an appropriate manner.

Operational greenhouse gas emissions were 347 tonnes of carbon dioxide equivalent per million litres of treated water in 2014/15 (2013/14: 219 tCO_2e/Ml).

In 2014/15 **around 50%** of NI Water's electricity consumption came from renewable sources (green grid).

- construction of **Integrated Wetlands Wastewater Treatment Works** as a low carbon alternative to conventional treatment processes;

- **optimisation** of usage of electricity, chemicals and fuels through more accurate measurement and definition of responsibility for usage; and

- inclusion of the **cost of carbon** in the calculation used to determine the **level of leakage** that NI Water should seek to achieve.

Solar Panels Installed at 3 Wastewater Treatment Works

84 solar panels installed on the roof of Antrim Wastewater Treatment Works, Co Antrim.

Solar Panels have been installed at Antrim, Lisnaskea and Newry wastewater treatment works as part of a trial. The aim of this trial is to help NI Water understand the potential benefits of this form of renewable energy and evaluate its performance. The panels will provide a reduction of 70,000kwhrs from the electricity grid equating to savings of around £18k per year.

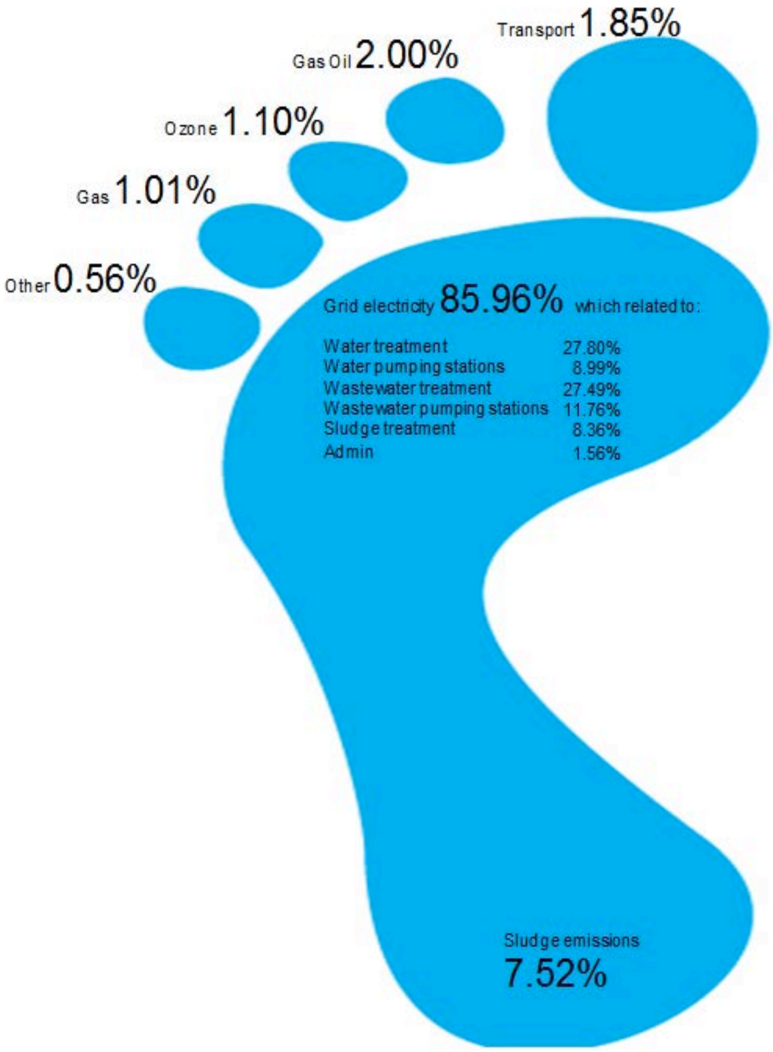
The **majority** of our **carbon emissions** are from **grid electricity** with the remaining emissions being attributed to areas such as sludge emissions and transport.

Grid electricity used by Company (including CHP electricity purchased) totalled **143,976 tonnes carbon dioxide equivalent** in 2014/15 (2013/14: 131,020 tCO2e).

Direct emissions from **burning of fossil fuels** (including natural gas Combined Heat Power generated onsite), process and fugitive emissions, transport, Company owned or leased vehicles totalled **17,120 tonnes carbon dioxide equivalent** in 2014/15 (2013/14: 12,828 tCO2e).

Emissions from **business travel** on public transport and private vehicles used for Company business, outsourced activities totalled **13,413 tonnes carbon dioxide equivalent** in 2014/15 (2013/14: 13,057 tCO2e).

The emissions data is calculated using the Carbon Accounting Workbook developed through UKWIR and WRc with participation from many of the UK Water companies including NI Water.



Percentages are indicative and based on data from the 2014 Annual Information return (AIR14).

We want to protect and enhance the natural environment

Our Goal

Our goal is to work collaboratively with all stakeholders to provide NI Water's essential services to customers in a way that is sustainable for our natural environment.

Our priorities to 2021

Complete a Catchment Management Plan for each catchment and further extend the range of work being under the SCaMP NI programme.

Further progress all actions in NI Water's Pollution Reduction Strategy.

Complete delivery of the improvements recommended through the asset management planning capability assessment carried out in late 2013.

For the 2015 Water Framework Directive (WFD) Programme of Measures, deliver those actions assigned to NI Water where they have been prioritised by stakeholders and are funded.

Complete the appraisals and business cases necessary to secure the investment to achieve compliance with the revised Bathing Water Directive.

Gradually deliver year on year increases in the percentage of new wastewater treatment works investment which is delivered by 'more sustainable solutions'.

What our customers can expect in 2040

We will be providing our essential services in a way that is sustainable for the natural environment and takes into consideration the needs of the environment as the weather and seasons change.

Our land will be carefully managed to maximise the benefit of the essential ecosystem services that they provide and maintain biodiversity.

Our assets will be carefully operated and proactively maintained in a way that minimises potentially damaging discharges to the environment.

Customer educational campaigns will have successfully influenced:

- the efficient usage of water, so that the abstraction of water from the environment for treatment and supply can be reduced; and
- disposal of inappropriate materials into the sewerage networks, so that there are less blockages, spills and discharges that impact upon the environment.

Through sustained investment, NI Water will have contributed to achieving 'good ecological status' or 'good ecological potential' under EU WFD where this is technically possible and does not involve excessive cost.

We will have made appropriate investment to play our part in assisting Northern Ireland's designated EU Bathing Waters achieve the excellent bathing water standard.

Water Framework Directive

As well as providing high quality, reliable and safe drinking water to our customers, we also remove wastewater from homes and businesses all over Northern Ireland. After appropriate treatment, the effluent is returned safely to the environment.

NI Water is contributing to achievement of the WFD objectives through a capital works programme to upgrade wastewater treatment works and sewerage networks. We continue to work with NIEA and environmental stakeholders to develop partnerships which deliver on pollution reduction.

Our wastewater compliance **continues to be at near record levels**. Over 2014, we outperformed the target of 97.80% of the population served by compliant wastewater treatment works, achieving 98.42%.

Revised Bathing Water Directive

Bathing water quality is monitored by the NIEA under the European Bathing Water Directive. The revised Bathing Water Directive comes into force in 2015, introducing more stringent standards and will consider compliance over a 4 year period. **8 beaches were awarded the Blue Flag in 2014**, against the increased compliance requirements under the revised Directive.

Northern Ireland has some of the **best bathing waters in the UK,** attracting thousands of **tourists** each year, which benefits our **local economy**.

Sustainable land management

Sustainable Catchment Area Planning (SCaMP NI) is an approach to sustainable land management within drinking water catchments. The objective is to improve the quality and reliability of the raw water.

In the past year there have been considerable successes. The Garron Plateau Blanket Bog Restoration Project won the **Business in the Community - Business and Biodiversity Award** and was a UK finalist in the Utility Week Environmental Awards in London. We have also successfully developed our **cross-border liaison with Irish Water** and other stakeholders in the Republic of Ireland. Work is currently underway to obtain EU funding to deal with SCaMP issues on cross border catchments.

NI Water Scoops Business and Diversity Award

NI Water has been working with the assistance of the RSPB and NIEA to protect and restore 2,000 hectares of peatland at the Garron Plateau, within the catchment area of Dungonnell Water Treatment Works in the Antrim Hills. The largest expanse of intact blanket bog in Northern Ireland is found on the Garron Plateau and it is home to protected birds of prey and rare plants.

Over the years there has been overgrazing by livestock on the plateau and the site was damaged when drainage ditches were dug through the bog.

NI Water has worked with tenant farmers to reduce the grazing pressure, thus allowing the natural bog vegetation to recover. Work was also undertaken to restore the natural hydrological conditions by blocking drains to raise the water table by creating peat, stone and sheet dams. The creation of these dams will reduce water velocity in the drains and allow more settlement time, thus reducing runoff and improving raw water quality and reliability. This will result in cost savings at the treatment works as the requirement for chemical treatment to remove colour from the raw water will be reduced. The reduced energy requirements for treating water will also reduce our carbon footprint and greenhouse gas emissions.

NI Water staff receiving the Business in the Community Award

Blocking of drains on the Garron Plateau

£8m investment in Benone Area Sewerage Scheme Complete

NI Water staff with Regional Development Minister Danny Kennedy at Magilligan Wastewater Treatment Works, Co L'Derry

Regional Development Minister Danny Kennedy visited the completed Magilligan Wastewater Treatment Works (WwTW), part of NI Water's £8m Benone Area Sewerage Scheme.

The completed wastewater infrastructure will improve the bathing water quality in this strategically important tourist area.

At the heart of the huge investment was the construction of this state-of-the-art wastewater treatment works on a Greenfield site - previously-owned by the Ministry of Defence - located off the Point Road in Magilligan. Designed for population projections to the year 2030, this modern new facility will now treat all sewerage flows from Oughtymoyle, Drumavalley, Aughil, Benone, the Ministry of Defence (MoD) facility and HM Prison Magilligan, before discharging the final effluent to the North Channel via a new outfall pipe at Magilligan Point.

Explaining the overall Benone Area Sewerage Scheme and the wider benefits it will bring to the locality, NI Water's Project Manager added:

"In an overhaul of the existing arrangements, all current wastewater treatment works at Aughil, Drumavalley and those operated by the Ministry of Defence (MoD) and HM Prison Magilligan, were converted to modern new pumping stations. These pumping stations will now transfer all wastewater and stormwater to the new Magilligan WwTW for effective treatment before being discharged to sea through the new outfall pipe at Magilligan Point.

"NI Water went to great efforts to reduce the short and long-term impact of the project on the local community, and we would like to thank the public for their patience throughout this essential programme of work."

Piloting sustainable solutions

NI Water is progressing a number of sustainable wastewater treatment pilot projects that will allow costs to be reduced whilst enhancing their surrounding natural environment. These will inform expansion of the use of this approach in the PC15 period.

Sustainable wastewater treatment scheme in Stoneyford - a Northern Ireland first

Regional Development Minister Danny Kennedy, Bill Gowdy (Director of Engineering Procurement) and Sara Venning (Chief Executive) inspect Northern Ireland's first Integrated Constructed Wetland at Stoneyford, Co Antrim

Regional Development Minister Danny Kennedy announced a £1.3m project by NI Water to deliver Northern Ireland's first Integrated Constructed Wetland (ICW) – a fully sustainable method of treating wastewater.

Construction commenced in 2014/15 on the innovative and environmentally friendly wetland site where wastewater is cleaned using a natural process.

ICWs are designed, built and operated through human technology and are based on processes that occur naturally within indigenous wetlands providing an environment where the plants such as Glyceria Maxima and Typha Latifolia themselves clean the water.

Danny Kennedy said: "I am impressed with the progress on this sustainable new approach to wastewater treatment.

The current treatment works in Stoneyford is nearing the end of its useful life and the new replacement ICW is a flagship project for NI Water and an industry-leading example of how wastewater treatment can be integrated into and complement a local indigenous ecosystem.

The ICW approach has been developed on natural treatment processes. This is the first time that this innovative solution has been used for municipal purposes in Northern Ireland.

This is an important and significant step towards the development of more environmentally-sustainable water treatment solutions."

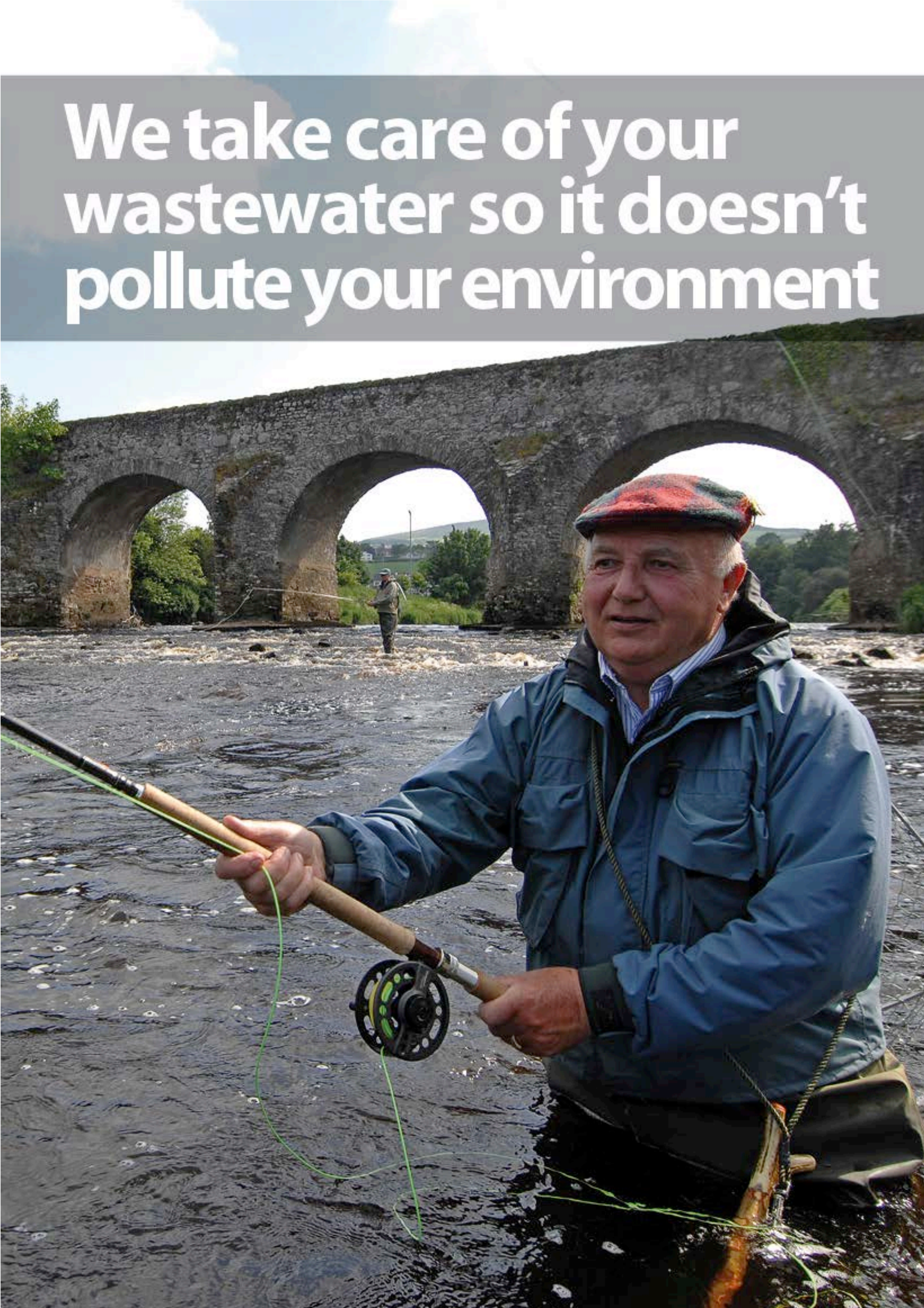
The ICW method has an established record in Europe of providing a low cost, low energy and low maintenance alternative to mechanical wastewater treatment. NI Water believes that this natural environmentally-friendly solution is particularly suited to rural areas and aims to accommodate the future development needs of Stoneyford, while promoting flora and fauna in a natural ecosystem.

Sara Venning, NI Water's Chief Executive added:

"NI Water is delighted to be able to cater for the needs of a growing population in Stoneyford through sustainable projects such as this. The new Stoneyford ICW will deliver improved wastewater treatment whilst creating an aesthetically-pleasing area, rich in biodiversity, and potentially an educational resource.

NI Water will continue to liaise with the local community throughout this programme of work and look forward to implementing this new environmental approach to wastewater treatment.

I am pleased that this innovative scheme has provided a welcome boost to the local construction industry."


We take care of your wastewater so it doesn't pollute your environment

Our Goal

We are committed to reducing pollution incidents and will work with stakeholders to play our part in reducing flooding which we recognise causes distress and inconvenience.

Our priorities to 2021

Prioritise investment to address issues in the sewerage system, which lead to out of sewer flooding.

Investigate opportunities to increase storm water separation and reduce infiltration.

Increase the use of Sustainable Urban Drainage Solutions.

Investigate areas of known or suspected storm water sewer misconnections and consider options for, and implement, their removal.

Further progress all actions in NI Water's Pollution Reduction Strategy.

Deliver customer education campaign to reduce sewer blockages.

Contribute to the development of the NI Executive's Flood Risk Management Plans (2015-21) of appropriate, affordable solutions that reduce flood risk and support the Water Framework Directive.

Undertake a focused programme of repair and renewal in relation to gravity sewers, CSO structures, pumping stations and siphons.

What our customers can expect in 2040

We will remove properties from the DG5 (out of sewer flooding) register within 2 years where a financially viable solution can be developed.

Customer educational campaigns will have successfully influenced a reduction in the number of sewer blockages.

We will have delivered a year-on-year reduction in the amount of storm water that enters the sewerage system by promoting storm water separation, infiltration reduction and use of Sustainable Drainage Systems (SuDS).

NI Water will have targeted capital investment and operational interventions to reduce flood risk and to protect the aquatic environment from pollution.

We will move from reactive to proactive asset maintenance seeking to intervene and maintain our assets before failures affect customer service.

NI Water will be continuing to work with all relevant agencies to not only provide a multi-agency response to flooding incidents but to reduce the causes of flooding, including the delivery of shared and jointly funded capital projects.

NI Water will have invested to increase the resilience of all key pumping stations from flood water, allowing them to remain operational to minimise flooding and pollution.

Wastewater treatment compliance

We remove wastewater from homes and businesses all over Northern Ireland. After appropriate treatment the effluent is returned safely to the environment.

We **continue to improve our discharges** to reduce the impacts on aquatic life and deliver cleaner rivers and beaches.

We manage and dispose of the bio-solids derived from wastewater treatment in accordance with waste management regulations.

We bettered our targets for wastewater treatment compliance in 2014, with **92.37% of wastewater treatment works compliant** (compared to a target of 91.0%) and **98.42% population equivalent served by compliant works** (compared to a target of 97.8%).

These targets are measured on a calendar year basis.

£1.9 million scheme for Swatragh completed

NI Water is pleased to announce that a major £1.9m scheme to upgrade the wastewater treatment works (WwTW) in Swatragh village, Co L'Derry, has been completed.

Minister Danny Kennedy welcomed the announcement and said:

"Over the last number of years my Department has invested heavily in water and sewerage services which has resulted in improved levels of quality for consumers. I am determined to make sure that the progress we have made continues for future years."

NI Water's Project Manager for the scheme said:

"The upgraded plant at Swatragh will benefit the local community by improving wastewater services in the area. The modern new treatment technology that has been installed will also increase the capacity of the treatment works to accommodate development in the area for the foreseeable future and will bring about environmental improvements, ensuring that wastewater treatment in the locality meets NIEA compliance standards."

Pollution from sewers

We are committed to reducing the number of our pollution incidents through our Pollution Reduction Strategy and Action Plan and by working in partnership with our stakeholders through our 'Partners Against Pollution Forum'.

We work in partnership with the Rivers Agency and DRD Transport NI to manage the drainage systems and prevent flooding. The **Flooding Incident Line** is a single telephone number that can be used all day, every day to report flooding.

There were **1 high and 24 medium severity pollution incidents** attributed to NI Water in 2014, against a target of no more than 44 high and medium incidents.

This target is measured on a calendar year basis.

Investment to prevent flooding and pollution

Internal flooding is abhorrent for the householder and customers want NI Water to focus on improving services for those affected by sewer flooding. We have developed a **register of properties at risk** from internal and external flooding. We are also carrying out work to address issues which cause out of sewer flooding.

flooding incident line
0300 2000 100

Pages 6, 9 and 10
Read more about sewer flooding targets.

Not Wanted: The Dirty Dozen

Joining forces against the Dirty Dozen are Anaya and Bethany. The 'Dirty Dozen' are the twelve most common items the public flush and dump down our sewers. The ring leader is the innocent looking Baby Wipe, closely followed by Sanitary Towel. These ordinary household items head a gang of everyday products that cause mayhem with the sewer system when flushed down the toilet or dumped in the sewers.

Help us beat the dirty dozen by not flushing your baby wipes, cotton buds or nappies and avoid the need for your plunger and our resources.

Together we can beat the 'Dirty Dozen' and keep our sewers running freely!

You can view first hand the damage inappropriate items can do to a sewer by visiting http://www.youtube.com/user/northernirelandwater.

A leaflet detailing all the 'Dirty Dozen' gang can be found at www.niwater.com.

Stormwater Management Group visit to Llanelli

NI Water arranged a visit to Dŵr Cymru Welsh Water to see how storm separation and SuDS work is progressing in Wales.

The group who traveled to Wales included representatives from NI Water, DRD, NIEA, Rivers Agency, Utility Regulator, Transport NI and Belfast City Council.

Welsh Water are developing and using new, innovative solutions to manage the amount of surface water entering their sewers.

Their approach, Rainscape, is aimed at reducing the risk of sewer flooding and pollution whilst also helping to increase capacity in the sewer network. Not only will the project help to support economic development, it will protect customers against effects of climate change. Following from their success in Llanelli, Welsh Water plans to invest more in Rainscape, around £80 million up to 2020.

This visit has really helped to inject some momentum into similar approaches being followed in Northern Ireland, where we face many similar challenges. It has boosted our relationships with some of the key organisations needed to make storm separation projects a success in Northern Ireland.


The NI Water Team listening to the Welsh Water presentation

NI Water's Head of Asset Strategy said :

'We are very grateful to Welsh Water for facilitating this visit, which has helped to illustrate the wide range of benefits associated with similar approaches being followed in NI, and look forward to progressing a detailed programme of pilot projects in the PC15 period.'

Education

To reduce flooding, we maintain the public sewers to make sure they work properly. It is important that we all help by only flushing human waste, toilet tissue and water down toilets and drains.

www.

See our information leaflet - *Advice for Customers who have Suffered Flooding:*
http://www.niwater.com/information-leaflets/

On average NI Water deals with around **17,000 blockages** each year to the network and it is estimated that around **75% are caused by inappropriate items** being put into the sewers. NI Water spends over **£1.2m per annum clearing blocked sewers.**

NI Water staff with the new vehicles

Little Brother and Big Brother Tackle Blockages

NI Water have recently brought a new mini tanker and large recycling tanker into service for the Eastern area. NI Water's Operations Manager for the area describes the tankers as 'Big Brother and Little Brother.'

'Little Brother' is used mainly for assisting operatives with CCTV work were they go out and clean or remove blockages from the system before we carry out a camera survey. It is also used in confined spaces in and around the Belfast area for clearing blockages where 'Big Brother' cannot get to.

'Big Brother' is used for desilting of sewers and fighting the ever increasing number of 'fat bergs' which we have to deal with on a daily basis.

'Little Brother' & 'Big Brother'

NI Water's Operations Manager for the area said: "Both vehicles are kitted out with all the necessary equipment we need to carry out this work and we are certainly finding that they are an invaluable part of our daily work."


We supply you with
the water you need

Our Goal

We will develop a sustainable, robust and resilient water treatment and supply system that provides protection against drought and emergency situations. We will work with development agencies, planners and others to ensure supply of services is in place to facilitate the demands of economic growth and sustain demographic change.

Our priorities to 2021

Invest to improve our ability to transfer water from one area to another, remove bottlenecks and increase storage capacity.

Through effective monitoring, detection, repair and capital investment we will deliver leakage targets.

We will work with NIEA to develop and adopt a new abstraction licence regime that aligns with the Water Framework Directive.

NI Water aims to publish the Water Resource and Supply Resilience Plan in 2017. This will provide a resilient, sustainable and efficient vision and inform the PC21 Business Plan.

Continue to identify and address areas where there is a risk of repeat interruptions to supply.

Deliver customer education campaign to promote water efficiency and continue to identify and address areas experiencing low pressure.

Invest available funding to minimise constraints in development caused by lack of capacity at wastewater treatment works and in sewerage networks.

What our customers can expect in 2040

We will have a secure, resilient water supply network that will provide protection against drought and emergency situations.

We will be continuing to manage leakage at an economic and sustainable level.

We will have made appropriate sustainable investment in both water and wastewater assets to ensure customers have unconstrained access to our services enabling economic development.

We will be using a catchment area approach to the assessment and management of risks to water sources.

Interruptions to supply

We aim to provide enough water for everyday activities such as drinking, washing, cooking, running central heating and flushing the toilet. **Sometimes we may have to turn off our customers' water supply to carry out essential work.** We provide **alternative water supplies** for interruptions lasting **more than 24 hours**. Customers on our care register will receive alternative supplies when interrupted for less than 24 hours.

Regrettably, during 2014/15, customers in some parts of the Province experienced significant **loss of supply as a result of Industrial Action** and all three supply interruption targets were missed. Excluding atypical events, NI Water has met or surpassed its targets for more than 24 hours and more than 12 hours in each of the last four years. In 2015/16, NI Water aims to further reduce the impact of supply interruptions on its customers.

Infrastructure investment

We are investing to improve the water supply infrastructure across Northern Ireland.

Service reservoir refurbishment programme

In June 2012, NI Water commenced a prioritised programme of investment to refurbish service reservoirs throughout Northern Ireland. Service reservoirs are included in the water distribution network for several purposes. Service reservoirs balance short term water supply and demand, typically over a day. The storage they provide also limits the risk of large scale interruptions in supply due to failures of water treatment works, booster pumping stations and trunk mains.

Interior of Ballyaghagan Service Reservoir, Belfast.

The programme of work has been very successful with the project team working on the Framework delivering around thirty installations during the PC13 period. The refurbishment work completed at service reservoirs is part of an overall £3.5m programme of work in 2014/15, and continuing during PC15 subject to funding approval.

There are a number of benefits to NI Water and our customers including decreased risk to water quality, continuity of supply, leakage reduction and reduced running costs.

NI Water staff and contractors involved in the service reservoir improvement programme

Water resource and supply resilience planning

Water resources

We operate and draw water from around 34 water sources which comprise upland impounding **reservoirs, boreholes, rivers and loughs**.

Our Water Resource Management Plan emphasises the need to further **reduce water losses** from the system whilst continuing to increase our **system connectivity**. This will allow us to increase the robustness of the network and meet our needs in a cost effective and reliable manner.

Over **99%** of our raw water comes from **surface water sources**. Around 50% of our raw water is abstracted from Lough Neagh.

5000 Pipes Milestone Reached For £14m Project!

NI Water is pleased to announce that 5,000 pipes have been laid on the £14m Castor Bay-Belfast Water Pipeline – an essential package of work, which will improve the security of the water supply infrastructure for our customers.

5,000 pipes is a major milestone for the project, with a total of 6,000 pipes involved in the scheme overall. The pipeline, which got underway in January 2014, is progressing well and is on schedule to deliver key improvements to the water supply infrastructure in the area. Two new water pumping stations at Sprucefield and St Andrews are being constructed, as well as the upgrading of five local reservoirs.
This major pipeline involves laying a new 29km water pipeline from Castor Bay Water Treatment Works in Craigavon to south Lisburn, where the pipeline will link into an existing trunk main to transport the water supply on to Belfast.

This major scheme will provide a vital source of water coming into Belfast, which will be especially important during future winters and in supplementing increased demand in the area.

Sara Venning, Chief Executive at NI Water on site with NI Water staff and contractors.

Sara Venning, NI Water Chief Executive, said:

"I am delighted to be here on site with the project team to mark the 5,000 pipes milestone on this essential pipeline.

"This investment is good news for customers, as it will improve the security of the water supply infrastructure, as well as improving drinking water quality, reducing leakage, whilst ensuring that NI Water complies with the relevant EU directives."

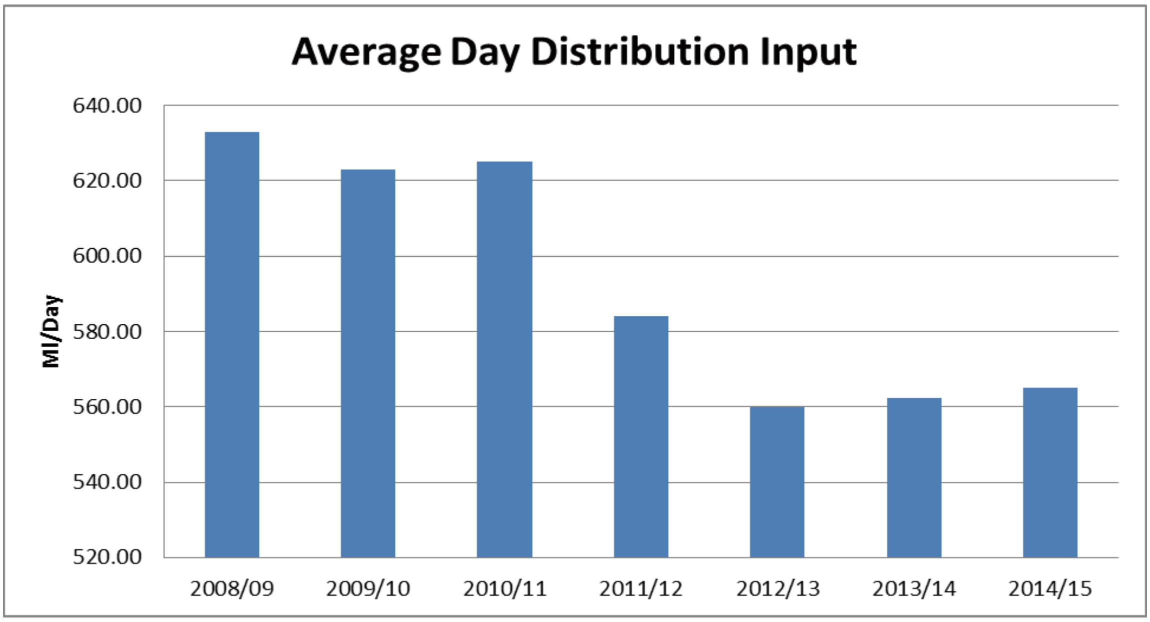
Intelligent Network Distribution Controls

The costs associated with the treatment and distribution of potable water are significant and have increased considerably over the past 10 years as a consequence of the implementation of new technologies and processes to meet tightening potable water standards. NI Water is aiming to reduce these costs and lead the way in the UK water industry by introducing intelligent Network Distribution Controls (iNDC's) using the regional telemetry system to implement automation in service reservoirs, water pumping stations, leakage monitoring stations and water booster stations. iNDCs enables management and remote control of data and devices through obtaining information in real time from a network of sensors. This allows the user to remotely analyse the system, monitor interdependent water distribution assets, as well as control the devices which influence these assets.

Managing demand for water

Our Water Demand Management Strategy is focussed on **reducing water** taken from the **environment** by managing **leakage** and **consumption.**

We supply around **560 million litres** of drinking water each day. Households across Northern Ireland use almost **150 litres per person each day**.



Leakage

We recognise that customers perceive the levels of leakage as high. However, there is a balance to be struck between the costs of fixing leaks (including environmental impacts) against the value of water saved – the **sustainable economic level of leakage**.

We have both internal and external leakage detection resources focused on **proactive leakage detection**. In addition, there is an on-going emphasis on improving the **quality of flow data** within the Company to assist with improved leakage targeting and reporting. Alongside this, capital investment will continue on such areas as pressure management and district meter area rationalisation which help to identify and reduce leakage.

In 2014/15 we continued to **reduce leakage** by a further **1 million litres per day to 166 Ml/d**. However this was above the target of 165 Ml/d, with the Industrial Action being a contributing factor.

If you notice a leak on a road or footpath, please phone **Leak line on 08000 282011**. Lines are open 24 hours a day.

Low pressure

We aim to give our customers water at a pressure of at least 15 metres of head at the boundary of the property. This means it takes about **30 seconds to fill a 4.5 litre bucket** from a kitchen tap.

In 2014/15 we **removed 186 properties** from the register of properties at risk of receiving **low water pressure**. A further 92 properties are to be removed from the register in 2015/16. 1,082 properties were on the register as at 31 March 2015.

We provide excellent service by having the right people doing the right thing for you

Our Goal

As we continue to transform our business, we will focus on equipping all our staff to deliver the high quality of services that our customers expect.

Our priorities to 2021

Improving the customer focus of all our activities so we excel in customer service and meet the needs of our customers.

Implement the Future Organisation Model and manpower planning exercise.

Support staff through continued business transformation which will require enhanced IT skills and changes to working practices.

Review our partners and contract service providers to ensure we are delivering services that represent value for money for our customers.

Continue to develop the skills of our staff through a range of development programmes that are targeted to enhance personal performance.

Maintain a healthy pipeline of apprenticeships which supports knowledge transfer in key functions and roles.

Maintain health and safety and wellbeing improvements, minimising impact on staff, and work with all key service providers to deliver further improvements.

What our customers can expect in 2040

Staff delivering water and wastewater services will have strong technical and scientific skills consistent with the use of new technology.

We will be recognised as a local employer of choice and attract and retain the best talent available across all business areas enabling us to provide quality services to our customers.

Technology and processes will be in place to support our customers' requirements and all staff will be equipped to deliver great customer service.

Results from staff surveys of 'a great place to work' will be 'best in class'.

We will have maintained sector leading performance in health and safety and our zero accident ambition.

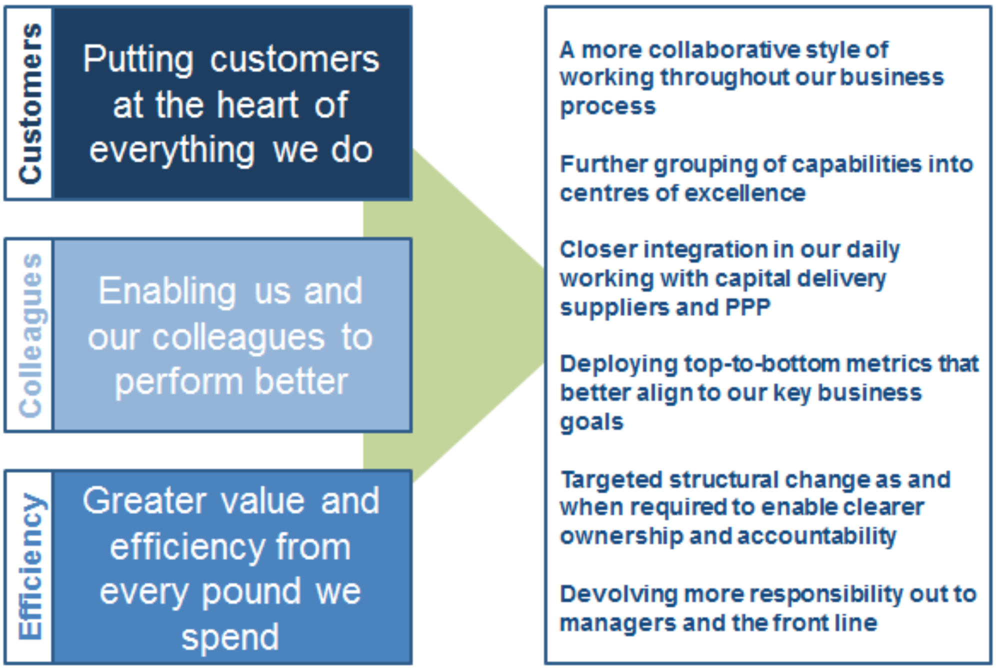
Employee volunteering schemes and other local initiatives will be recognised as benefitting our local communities and the professional development of our staff.

Business improvement

We have commenced the projects that will move us to our **'Future Organisation Model'**, one that seeks to deliver an improved service for our customers, at a sustainably lower cost via a highly engaged workforce.

The key design concepts include the introduction of water and wastewater **production lines**, the set-up on a **new Customer Service Centre**, a move to a more **integrated supply chain** and a focus on **commercial excellence**.

Future Organisational Model



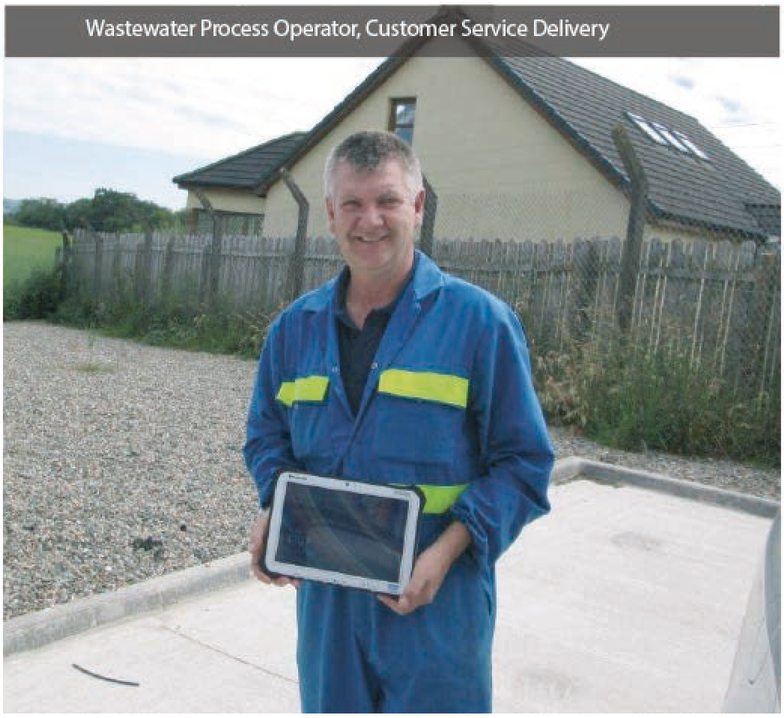
Staff development

NI Water has a key strategic focus on **developing our people.** We re-invigorated the **performance management review process** and provided our managers with guidance and support through **e-learning**. We continue to focus on developing the skills and behaviours of our senior and middle managers through our **Management Development Programmes**. Alongside this, we introduced the **Emerging Managers Programme**, aimed at identifying and developing our **future managers.**

We are **committed to the development** of all employees regardless of role and grade. During 2014/15, all frontline operatives were given extensive technical training on the new **ToughPad device** to ensure that they could use the device with confidence.

Email and Mobile Communication for Frontline Operatives

"I have been using the new ToughPad since June 2014 and have been pleasantly surprised with how successful the trial has been to date. I am now receiving emails daily for Wastewater Treatment Works performance. I have found the access to NI Water's remote asset monitoring (Telemetry) system to be invaluable."



Health and Safety

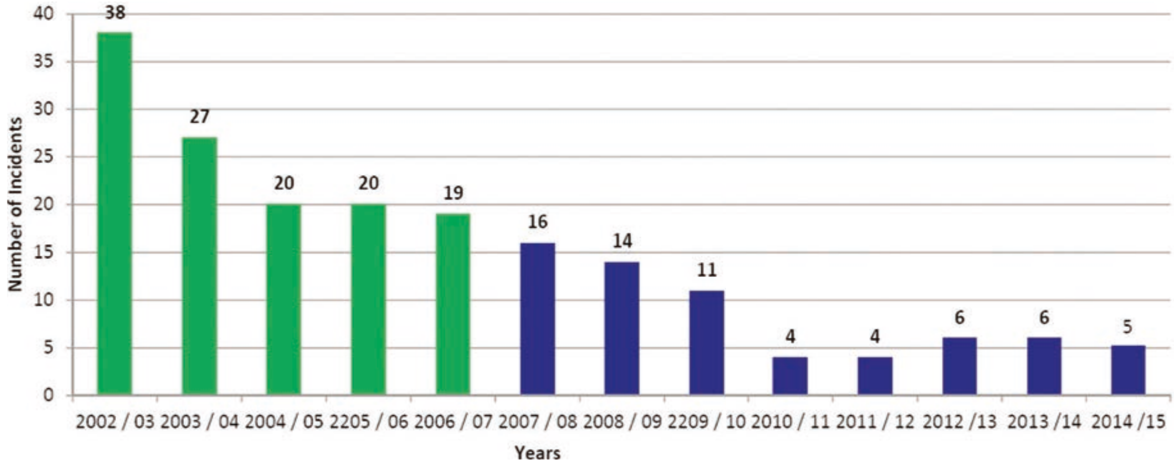
NI Water has a **zero accident ambition**. We continue to **focus** on making NI Water a **healthy and safe place to work** by working closely with our employees, trade unions and contractors to improve the health and wellbeing of our employees and reduce accidents within the workplace.

RIDDOR KPI and H&S Performance

We are pleased to announce that the Health and Safety (H&S) performance and safety behaviors within NI Water continue to set an example to all other water industry companies.

The table below shows our performance since 2002 which despite an increase from 2011/12 of four RIDDORS to six in 2012/13, it does show a significant drop over the past 10 years (2002) where we had 38 incidents. We recognise that even one accident is too many due to the major impact on the injured party, their colleagues, their family and friends and urge your continued efforts and vigilance to report all near misses due to their direct correlation with the number of potential incidents and accidents.

NI Water H&S Performance
RIDDORs 2002 - 2015



*Reporting of injuries, Diseases and Dangerous Occurrences Regulations (Northern Ireland) 1997- RIDDOR

We are always striving for continuous **improvement** across all aspects of health and safety, with one such initiative being our **'Safe Contract Management' theme** which focuses on delivering a safety culture through effective safety behaviours.

This year NI Water has maintained a strong focus on continual safety improvement and through the 2014/15 **'Training Reduces Your Risk' campaign** we believe that incidents and harm have been avoided within areas of our business. Our colleagues within NI Water and those stakeholders we come into daily contact with are important to us, and this drives our value of placing Safety First.

RoSPA Gold Medal for Occupational Safety and Health Performance

This year for the very first time ever after achieving 5 consecutive RoSPA Gold Awards, NI Water has been recognised with and awarded the RoSPA 'Gold Medal' for Achievement in Occupational Safety and Health Performance.

This is great news for NI Water and fits well with our corporate and strategic vision for health and safety within our organisation;

"NI Water will be a leading player in the pursuit of raising health and safety standards across the water industry through the identification and adoption of best practice within the UK".

Our Aims to support this vision are to:

- Prevent ill health and injury in our workplaces
- Promote good safety, health and wellbeing practices
- Promote our industry as socially responsible

RoSPA
2014
GOLD MEDAL
Award

Workforce planning

It is important that we undertake a rigorous assessment that identifies the **resources** required to enable NI Water to achieve its objectives via **reducing risks** to the business from internal and external **resourcing options**.

In support of this we continue to recruit **apprentices and graduate trainees** across the business, which helps to build capability and retain talent for the future.

We have commenced a **Talent Management and Succession Planning initiative** to identify and develop talent within the business.

Page 141
Read about the gender breakdown of our workforce.

Engaging employees

NI Water recognises that the **motivation** and **engagement** of our colleagues is key to achieving our strategic objectives. We are determined to ensure that NI Water is a **great** place to work.

In response to the 2013 employee survey, key actions were prioritised under the headings of **Leadership, Motivation and Career**. Each initiative was led by a member of the Executive Committee and Change Champions were appointed for each functional area of the business.

Consultations with the **Trade Unions** continue to be constructive and progressive with the aim of reaching agreement on all matters wherever possible.

Although NI Water is unionised, not all employees take up this option. NI Water has an **Employee Forum group** which provides feedback on business initiatives outside of the union framework. This is a positive and beneficial two way communication avenue for the business and employees.

The various activities and outputs from the 2013 employee survey included **employee workshops** and **discussion groups**, **ToughPads** for frontline employees and the **Event Support Scheme** to support local events and team building. We continue to work on the three priority areas, together with the additional initiatives of Health and Wellbeing and e-learning.

We are always keen to hear ideas and receive feedback through our **Chief Executive and employee workshops** which are held at various locations across the Company.

Our wider role in the community

Our wider role

We are committed to contributing to the **economic development** of Northern Ireland and to producing a **cleaner environment** while improving the **quality of life** of our workforce and the local community.

Cares Challenge Scheme Delivers 3,000 Hours of Volunteering Time

Cares Challenge

Since it began 3 years ago our Cares Challenge volunteering programme has gone from strength to strength. To date over 400 colleagues have participated, which equates to over 3,000 hours of time volunteering – making it one of the largest corporate volunteering schemes

in Northern Ireland. This is a fantastic achievement by the volunteers and shows NI Water's commitment to Corporate Responsibility, helping to make a difference in Northern Ireland's local communities. We aim to provide challenges that appeal to as many colleagues as possible ensuring our tasks are across Northern Ireland helping a range of local charities, community centres, special needs schools and National Trust properties. We want to empower our colleagues to make a positive impact through our volunteering activity.

Changing how we think about water

Our **Education Department** provides support for all age groups in all walks of life. Every aspect of water in our lives is considered.

We deliver community education by engagement with children, youth and adult groups.

We are supporting the Northern Ireland Curriculum through the delivery of free programmes by our trained staff - we are delivery partners for Water and Health for the Eco Schools Programme.

During 2014/15 the Education Team visited over **16,067 school children**; 205 schools, 6,359 children have had classroom based visits; and 7,594 children have been visited by the Waterbus. In relation to our own NI Water based classrooms; 15 schools have visited our Silent Valley centre (in the Mourne Mountains) and 9 schools have visited our Heritage Centre in Duncrue Street, Belfast. **We have introduced Secondary level talks at Key Stage 3 from January 2015 and have been in contact with 1,192 pupils at 9 schools.**

Find out more about our education programme:

www.

http://www.niwater.com/education-and-the-community/

Our **Waterbus** is a double decker mobile classroom which travels throughout Northern Ireland. Pupils learn through presentations and demonstrations about the water cycle, water for health, water conservation and water and wastewater treatment.

Our 2014/15 **education initiatives** improved consumers' water efficiency measures, resulting in a saving of around **304,000 litres** of water per day.

Supporting local communities

We work with local communities to **share expertise**.

Kirkistown Primary School check out NI Water's new pumping station

NI Water welcomed Kirkistown Primary School to its newly upgraded Cloughey North Pumping Station on the sea front in the village.

Pupils had an opportunity to have a first look around the new pumping station, which has been totally refurbished with a host of new pumping and electrical equipment to boost the performance of the station and deliver environmental benefits in the area. Pupils also had the opportunity to assist with some of the planting and landscaping around the site, which will enhance the overall aesthetics of the area.

The new mural designed by local pupils which is displayed at the pumping station
(L-R) NI Water and Kirkistown PS staff with pupils from Kirkistown Primary School with planting at the new refurbished site.

The school also participated in the design of a new mural, alongside St Patrick's Primary School, Ballygalget, as part of a joint cross-community project by Ards Borough Council and NI Water. The mural, which is displayed on the wall of the new pumping station in Cloughey, celebrates the local area and includes images of Cloughey tennis courts, Kirkistown castle and native marine life.

The improvements at Cloughey North Pumping Station represent an investment of over £200,000 and the station is one of 32 pumping stations located within the Co. Down area.

NI Water Wastewater Assets Area Manager (East) said:

"The community mural designed by Kirkistown Primary School and St Patrick's Primary School, Ballygalget is a fitting final touch to the improvements carried out at Cloughey North Pumping Station. NI Water is delighted to have been able to facilitate the mural and we congratulate the pupils of both schools on their artistic talents.

The NI Water project team worked alongside Cloughey and District Community Association to bring about further improvements, including the planting of shrubs around the Pumping Station"

Supporting charities

Our employees and suppliers work with a range of charities including **WaterAid**.

Bernie McLean Experiences Life without Water in Uganda with WaterAid

NI Water's Bernie McLean saw first-hand the difference the money she has raised for WaterAid is making during an unforgettable trip to Uganda, with the international development charity.

Bernie went on the fact-finding trip, along with fundraisers from 13 other water companies.

She spent a day-in-the-life in the rural villages of Ojolai and Bobol, finding what daily life is like with and without safe water and toilets. She visited WaterAid projects in the flooded urban slums of Kampala, and in rural communities, to see how the money raised locally by the company's employees is changing lives in countries like Uganda.

Bernie spent time in a remote village, Ojolai, with a local family, living without clean water and a toilet. She learnt first-hand about their daily challenges just for survival. She spent time with children, from three very different local schools, joining in with some hygiene lessons, and learning how clean water is literally a life-saver. She even got her hands dirty constructing new taps.

Bernie said: "In Ojolai, I helped to collect the water from the 'well' – it was basically a pond, totally disease ridden, milky-looking with turtles in it. I couldn't believe my eyes. The weight of the jerry cans also shocked me, I could barely even lift it. The mums and children make the grueling trip to collect this water up to six times a day, in the searing heat. Imagine trying to carry 20kg on your head, whilst also carrying a baby and bringing a toddler with you – it's unacceptable."

Bernie visited three primary schools in the region – some with and some without a water supply or suitable toilets for the children.

"We visited Bobol Primary School, this one had access to water, and the children were happier, educated about hygiene – the difference in the children was incredible! We saw hygiene messages around the school, and we even helped the girls to make cloth sanitary towels. It makes you realise just how much of an improvement WaterAid can make – an amazing sight to see!

I've now seen for myself how WaterAid spends the money we've raised in Northern Ireland. It's not only about taps and toilets – the projects can help communities take control of their rights, and access the resources that they are entitled to."

Reflecting on the visit, Bernie said: "The most shocking thing for me was when we heard about a woman who'd died in the Kampala slums we went to. She died, that morning, because she fell in the open sewers that were full to the brim from the previous night's rains. She was just taking her little girl to school. Her daughter was rescued but for her it was too late."

Bernie said: "Clean water and toilets are things we take for granted here in Northern Ireland, but for some people they're a luxury. Just imagine if we couldn't turn on the tap, go to the loo, have a shower, wash our children - they have no choice but to use whatever water they can find. That very water could make them ill, or could cause a fatal sickness.

Pages 60 and 91.
Read more about protecting our environment and our governance.

By order of the Board

Sara Venning
Chief Executive
24 June 2015

Governance

Benone Waste Water Pumping Station, County L'Derry.
Image courtesy of Alan Lavery photography.

Corporate governance

Chairman's introduction
I am pleased to present the Corporate Governance Report for 2014/15.

This report describes the key features of the Company's corporate governance structure and compliance with the relevant provisions given its status as a Government Owned Company (GoCo) under the Companies Act 2006 and as a Non-Departmental Public Body (NDPB) sponsored by DRD.

The Board is committed to the principles of good corporate governance.

Some of the key developments in corporate governance in 2014/15 are as follows:
- further improvement in regularity compliance and financial and procurement governance;
- the Reporter's report to the Utility Regulator on the 21 July 2014 entitled 'Systems of Planning and Internal Control' (SPIC) reviewed the Company's 'Integrated Governance Framework' and the 'Risk and Assurance Framework' and concluded that 'there is a sound structure in place to monitor the effectiveness of risk management';
- in relation to our colleagues' health and safety, NI Water received the RoSPA for Occupational Health and Safety 'Gold Medal' after achieving the 'Gold Award' consecutively for five years;
- conducting exercises and joint workings with other utility entities to improve customer services and business resilience;
- further strengthening of NI Water's 'Information Governance' to ensure that accurate and reliable information is readily available to support service delivery and reporting;
- collaboration with local universities and professional bodies through research, development and innovation in governance, internal controls and risk management; and
- effective collaboration with other UK Water and Wastewater providers and local utility companies to share learning and resources through benchmarking and mutual agreements.

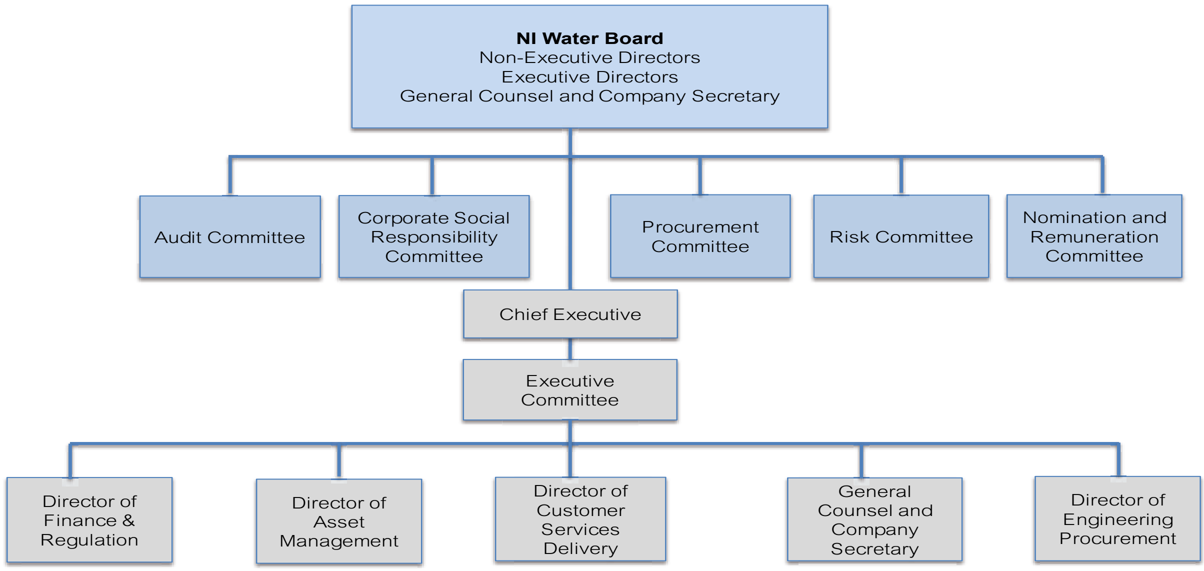
Culture, values and behaviours
The culture within NI Water is an important foundation for the corporate governance environment. It is based on the vision and values we subscribe to and associated behaviours that we have come to expect from our employees, such as delivering results and improved performance through empowerment and teamwork.

Compliance statement
The Board has taken into consideration the governance arrangements established between NI Water and DRD through the MSFM and the relevant governance provisions in the Department of Finance and Personnel's (DFP) guidance entitled 'Managing Public Money Northern Ireland' (MPMNI).

The Board considers that, during the year and up to the date of this report, it has complied with the main principles of corporate governance that applies to NI Water as set out within the MSFM. The MSFM draws on best practice corporate governance arrangements as set out in the UK Corporate Governance Code and the Government Code. A joint review of the MSFM was conducted in the year between NI Water, DRD and Department of Finance and Personnel (DFP). There were no significant changes besides updating references to guidance and best practice on good governance and assurance.

Board and Executive Committee structure

The Board and Executive Committee structure is shown below:



Operation of the Board

The Board has ultimate responsibility for ensuring that the Company is properly managed and achieves its strategic objectives. It has an agreed schedule of matters reserved for Board decision, which includes setting long term strategic and business objectives within the policy and resources framework determined by the Minister and DRD, overseeing the Company's internal control systems and risk management and ensuring that appropriate resources are in place to enable the Company to meet its objectives. The Board meets at least 11 times in each calendar year and convenes additional meetings as and when required.

The Chairman and the other Non-Executive Directors are appointed by the DRD Minister. The Chairman has responsibility for the effective workings of the Board and agrees the agenda in consultation with the Company Secretary. Papers, including minutes of Board committees held since the previous Board meeting and reports, are circulated in advance of each meeting. The Senior Independent Director acts as a 'sounding board' for the Chairman and fulfils an intermediary function for other Directors if required. The Senior Independent Director is also available to address any concerns of the Shareholder which either have not been suitably addressed, or are inappropriate to address, through the normal communication channels. The Chief Executive is responsible for the executive management of all of the Company's business and for implementing Board strategy and policy within approved budgets and time-scales.

The Board has considered the status of the Non-Executive Directors over the year and considered them to be independent in character and judgement. The Non-Executive Directors contribute external expertise and experience in areas of importance to the Company such as corporate governance, financial management, corporate, procurement, social and environmental strategy, systems of internal control and risk management. The Non-Executive Directors also provide independent challenge and rigour to the Board's deliberations.

Board Committees

A committee structure is in place to assist the Board in the discharge of its responsibilities. The Terms of Reference of the Audit Committee, the Risk Committee, the Nomination and Remuneration Committee, the Procurement Committee and the Corporate Social Responsibility Committee may be obtained on written request from the Company Secretary at the address given on the back cover of this report. The membership of the Board Committees is set out below:

Board Committee	**Membership**
Audit Committee	Donald Price (until 30 June 2014)
	Kevin Steele [Chair]
	Jim Stewart, CBE
	Seán Hogan (from 1 January 2015)
Risk Committee	Jim Stewart, CBE [Chair]
	John Rae
	Deep Sagar
Nomination and Remuneration Committee	Seán Hogan [Chair]
	Donald Price (Until 30 June 2014)
	Jim Stewart, CBE
Procurement Committee	Deep Sagar [Chair]
	Seán Hogan
Corporate Social Responsibility Committee	John Rae [Chair]
	Kevin Steele

Length of service

The time served by Board members is shown below:

	Length of service as at 31 March 2015 (years)	**Date of appointment**	**Date of expiry**
Dr Leonard J. P. O'Hagan CBE	-	1 April 2015	31 March 2019
Seán Hogan	4	24 March 2011	31 March 2015
Donald Price	6	29 July 2008	30 June 2014
Kevin Steele	4	21 June 2010	July 2015
Deep Sagar	3	22 August 2011	July 2015
John Rae	3	22 August 2011	July 2015
Jim Stewart, CBE	3	22 August 2011	July 2015
Sara Venning	4	21 May 2010	n/a
Ronan Larkin	9	19 September 2005	n/a
Mark Ellesmere	8	26 June 2006	n/a
George Butler	9	28 April 2005	n/a
Sean McAleese	-	12 January 2015	n/a

Report by Kevin Steele, Chair of the Audit Committee

The Audit Committee has, throughout the year, monitored the integrity of financial reporting together with the Company's formal announcements relating to its financial performance, paying particular attention to significant reporting judgements contained therein. The Audit Committee provided oversight on the effectiveness of financial risk management and its associated controls; reviewed the effectiveness of NI Water's Fraud, Theft, Whistleblowing and Bribery policies and procedures, awareness training, and the effectiveness of investigations. In addition, it reviews the effectiveness of the other good governance and internal control policies such as Code of Ethics, Conflict of Interest, Gifts and Hospitality.

The significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed, are listed below:

- risk relating to financial funding: the Audit Committee were kept appraised during the year of the development of the PC15 business plan; its review by the Utility Regulator; the non-acceptance of the PC15 Final Determination by the Board due to lack of Public Expenditure to fund the capital expenditure and operational expenditure requirements. Thereafter, the Audit Committee has kept under review the ongoing liaison between DRD, the Utility Regulator and NI Water to agree an Operating Plan and Budget for 2015/16, secure funding for 2016/17 and consider a way forward for the remainder of the PC15 period;
- the withdrawal of the revolving credit facility at the end of March 2014 gave rise to increased risk in the event of a financial shock or major incident requiring emergency funding. To address this, provisions were reflected in the Subsidy Memorandum of Understanding to allow subsidy to be drawn down early and the loan note instrument was amended to allow additional loans to be drawn down in the event of an emergency;
- the expiry after March 2016 of the ability to draw down loans on the current loan note instrument and of the working capital facility of £20m have also been kept under review. A new loan note instrument has now been completed with DRD to cover the rest of the PC15 period along with an agreement with DRD that a new working capital facility will be provided from April 2016;
- the level and treatment of claims from contractors were monitored during the year with additional information sought from management as appropriate; and
- the deferred tax charge and related provision were considered in the light of the agreement between HMRC and the water industry on capital allowances. The new agreement gave rise to the resubmission of revised tax computations for the six years to 2012/13 which were accepted by HMRC.

Where requested by the Board, the Audit Committee provides advice on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Shareholder to assess the Company's performance, business model and strategy.

The Audit Committee met with the Risk Committee to consider the Chief Executive's Year-end Assurance Statement and to consider Internal Audit's Annual Assurance Statement which provides the Chief Executive, as Accounting Officer, with an opinion on the overall adequacy and effectiveness of NI Water's framework of governance, risk management and internal control.

As Chair of the Audit Committee, I have recent and relevant financial experience.

By invitation of the Committee other individuals such as the Company Secretary, Director of Finance and Regulation, Financial Controller, Head of Corporate Governance, Head of Internal Audit and the External Auditor were normally in attendance for all or part of those meetings. The Director of DRD's Shareholder Unit, was also invited to attend Audit Committee meetings as provided for in the MSFM.

The Audit Committee met with the Company's External Auditor at least four times in the year. The Committee and the External Auditor also held separate meetings without the attendance of executive management. In their assessment of the independence of the External Auditor, the Committee received in writing details of relationships between the External Auditor and the Company, which may bear on the External Auditor's independence and received confirmation that they are independent of the Company as required by International Standard on Auditing (UK and Ireland) 700 Revised.

The Audit Committee approved the level of the External Auditor’s fees in respect of the audit of the Statutory and Regulatory Accounts of the Company, along with other financial information returns to the Utility Regulator, considered the adequacy of the External Auditor’s proposed audit plan, and reviewed compliance with their letter of engagement.

The Audit Committee has primary responsibility for making a recommendation to the Board on the appointment, reappointment and removal of the External Auditor. KPMG was reappointed as External Auditor on 15 July 2013 for the duration of three years with an option for extension on an annual basis for a further three years.

The Audit Committee reviewed the non-audit services provided by the External Auditor. Non-audit services such as independent certification work are pre-approved as a matter of policy. Other non-audit services which are considered to have the potential to impair or appear to impair the independence of the audit role, such as design and implementation of financial information systems, are precluded from being provided by the External Auditor.

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See note 7 to the Statutory Accounts for the fees relating to audit and non-audit services.

The Head of Internal Audit reported to the Chief Executive as Accounting Officer (for administrative purposes) and to the Chairman of the Audit Committee (in respect of the scope and remit of internal audit activity, assessment of adequacy of resources, appraisal of function effectiveness and ongoing assessment of independence). The Audit Committee approved the Internal Audit Strategy and monitored completion of the 2014/15 audit plan. The Head of Internal Audit provided a progress report to each Audit Committee meeting which included an overview of audit review findings, follow up status of recommendations and summary of any advisory activity. The Head of Internal Audit met with the Chairman of the Audit Committee without management to discuss the Company’s overall control environment. The Audit Committee assessed the safeguards in place to protect the independence of the Internal Audit Function. In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit provided an annual self-assessment of the function’s performance to the Audit Committee. An External Quality Assessment (EQA) of the Internal Audit function is due to be completed in 2015/16.

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Audit Committee’s Terms of Reference. A formal report was presented to the Board and the Board approved the revised Terms of Reference of the Committee in September 2014.

Report by Jim Stewart CBE, Chair of the Risk Committee

The Risk Committee provided oversight on NI Water’s risk management framework and strategic risk management. Membership of the Risk Committee consists of three Non-Executive Directors – myself as Chair, John Rae and Deep Sagar. By invitation of the Committee, other individuals such as the Chief Executive, the Director of Customer Service Delivery, the Director of Finance and Regulation, the General Counsel and Company Secretary and the Head of Corporate Governance (Chief Risk Officer) were normally in attendance for all or part of those meetings.

The Committee met on a quarterly basis and reviewed the risk management policy, the strategic risks and opportunities management towards the achievement of the Company’s objectives, risk appetite, forward and future risks, risk horizon scanning, benchmarking of risks, training and awareness and the management of actions to reduce the Company’s risk exposure to an acceptable level.

The Risk Committee reviewed strategic and operational risks and as Chair of the Risk Committee, I provided a report to the Board on a quarterly basis on key matters of risk and assurance. A strategic risk and opportunity management report was also included in the Chief Executive’s report to the Board on a monthly basis.

The Committee continues to provide support to management in relation to research, development and innovation in risk and opportunity management. As a result, management has made further improvement to its Risk Management Framework through enhancement to the Corporate Risk and Opportunity Register, thus providing quality information for management and monitoring.

A joint meeting between the Risk Committee and Audit Committee was held to review the effectiveness of the Company's internal control and risk management framework and the Board was satisfied with the annual review provided by both Committees.

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Risk Committee's Terms of Reference. A formal report was presented to the Board and the Board approved the revised Terms of Reference of the Committee in July 2014.

Report by Seán Hogan, Chair of the Nomination and Remuneration Committee

Refer to the Directors' remuneration report on pages 111 to 115.

Report by Deep Sagar, Chair of the Procurement Committee

The Committee reviewed the Company's procurement strategy, policies and procedures and the Company's Procurement Plan under its operating Licence. In addition to the above matters, the Committee also considered a strategy for collaborative procurement of common goods and services. The Procurement Committee met twice in the year. Following a review of Board effectiveness the Procurement Committee is no longer a Board Sub-Committee and has been stepped down.

Report by John Rae, Chair of the Corporate Social Responsibility (CSR) Committee

The Committee reviewed and amended the CSR reporting model, received updates on strategic themes from relevant parts of the organisation and continued support for the Cares Challenge Volunteering project among other matters. The Committee also received presentations from other organisations concerning their approach to CSR. The CSR Committee endorsed a change to the operation of the Committee. Going forward the Executive members will meet 3 times during the year, and the full CSR Committee including the Non-Executive members will meet once a year to agree the CSR strategy for the next year.

Operation of the Executive Committee

The Chief Executive is supported by the Executive Committee. Membership of the Executive Committee is shown below and comprises the Executive Directors and Executives responsible for key central and operational functions:

Members of the Executive Committee:
Sara Venning* – Chief Executive
Ronan Larkin* – Director of Finance and Regulation
George Butler* – Director of Asset Management
Sean McAleese* – Director of Customer Service Delivery (appointed on 12 January 2015)
Mark Ellesmere – General Counsel and Company Secretary
Bill Gowdy – Director** of Engineering Procurement.

Former members of the Executive Committee:
Alec McQuillan – Interim Director** of Customer Service Delivery (until 11 January 2015)

* Executive Director.
** Not a Director under Companies Legislation.

Further details on our Executive Committee can be found at:

http://www.niwater.com/our-executive-committee/

Procedures are in place to allow Directors to take independent professional advice in the course of their duties. All Directors have access to the advice and services of the Company Secretary.

Where a Director has a concern over any unresolved business he or she is entitled to require the Company Secretary to minute that concern. Should he or she later resign over this issue, the Chairman, or in the absence of the Chairman, the Chief Executive will bring it to the attention of the Board. NI Water purchases Directors' and Officers' liability and indemnity insurance which cover its Directors and Officers against the costs of defending themselves in civil proceedings taken against them in that capacity, and also in respect of damages resulting from the unsuccessful defence of any proceedings.

Directors and their interests

The names of the Directors currently serving on the Board are set out on page 94. Details of the Directors' employment agreements and interests are shown in the Directors' remuneration report.

Directors' interests in contracts

No Director had a material interest at any time during the year in any contract of significance with the Company. Details of Directors' interests in other companies are disclosed in note 29 to the Statutory Accounts.

Remuneration

The Directors' remuneration report, which includes a statement on the Company's policy on Directors' remuneration, is set out on pages 111 to 115.

Re-appointment

There is no requirement for retirement by rotation and re-appointment of Directors under the Company's Articles of Association.

Performance and effectiveness reviews

During the financial year the Board completed a review of its effectiveness (including Board Committees) facilitated by the DFP's Business Consultancy Service (BCS), an external body.

Shareholder relations

The Board recognises the importance of representing and promoting the interests of its Shareholder and that it is accountable to the Shareholder on governance, performance and activities of the Company.

Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2014/15 are shown below.

	Board meeting		**Audit Committee**		**Corporate Social Responsibility Committee**		**Procurement Committee**		**Nomination and Remuneration Committee**		**Risk Committee**		**Joint Risk and Audit Committee**	
	Held[19]	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Seán Hogan	11	11	4	1	-	-	2	2	3	3	-	-	-	-
Donald Price	11	3[20]	4	1	-	-	-	-	3	1	-	-	1	1
Kevin Steele	11	10	4	4	2	2	-	-	-	-	-	-	1	1
Deep Sagar	11	10	-	-	-	-	2	2	-	-	4	2	1	1
John Rae	11	11	-	-	2	2	-	-	-	-	4	3	1	1
Jim Stewart, CBE	11	10	4	4	-	-	-	-	3	3	4	4	1	1
Sara Venning	11	11	4	4	2	2	2	1	-	-	4	4	1	1
Ronan Larkin	11	10	4	4	-	-	2	2	-	-	4	3	1	1
Mark Ellesmere	11	11	4	4	-	-	2	2	3	3	4	4	1	1
George Butler	11	11	-	-	2	2	2	-	-	-	-	-	-	-
Sean McAleese	11	3[21]	-	-	-	-	-	-	-	-	4	1	-	-

[19] This does not include ad hoc Board meetings during the year on specific items.
[20] Donald Price ceased to be a Non-Executive Director on 30 June 2014.
[21] Sean McAleese was appointed as Director of Customer Services Delivery on 12 January 2015.

Internal control and risk management

An effective system of internal control and risk management is central to the achievement of NI Water's vision and corporate objectives. Our 'Risk and Assurance Framework' identifies and prioritises the management of risks and opportunities towards the achievement of these objectives, in line with the risk appetite. Risk is managed on a business-wide basis through an 'Integrated Governance Framework' thereby reducing the risk of 'silo' risk management. This also ensures that appropriate ownership and resource is centred towards monitoring effective controls and completion of required actions to reduce risk and enhance the opportunities of making improvements across the organisation.

Risk assurance is managed over the year through a process of forward risk review, horizon scanning, benchmarking and risk workshops at various levels of the business and independently reviewed through internal and external audit functions.

Internal Audit reported on significant control issues and provided independent, objective assurance and advice based on the results of the internal audit reviews carried out, follow-up reviews, relevant advisory work and consideration of the current internal control, governance and risk management framework.

The Board has overall responsibility for the Company's system of internal control and risk management. The Board reviewed the effectiveness of the system of internal control, including strategic, financial, operational and compliance requirements, in terms of its effectiveness and adequacy. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage rather than eliminate the risk of failure to achieve business objectives. The Board reviewed the corporate risks and opportunities report on a monthly basis and identified ways in which to enhance the control and risk assurance in the Company.

The Board has established two Sub-Committees to assist it in dedicating more time to internal control and risk management but ultimate responsibility still rests with the Board. The Risk Committee provided an oversight and strategic challenge function in relation to the management of principal risks and opportunities and those significant risks escalated during the year. The Audit Committee provided the oversight for financial risk management and its associated controls on behalf of the Board.

The Risk Committee received quarterly reports from the Executive Committee on the significant financial and non-financial risks and opportunities respectively faced by the Company. Any significant control weaknesses that have been identified as requiring remedy are also escalated to the respective Committees. The action plans were monitored on a quarterly basis on the improvements made to the controls and towards the achievement of the Company's risk appetite. A joint meeting of the two committees was held at end of the financial year to consider the Year-End Assurance Statement and Internal Audit's Annual Assurance Statement. Recommendations were also made to the Board on the effectiveness of the Company's internal controls and risk management. The Board has confirmed that procedures providing an on-going process for identifying, evaluating and managing the principal risks and opportunities faced by the Company, have been in place for the year to 31 March 2015 and up to the date of the approval of the Annual Report and Accounts.

Governance Statement

Introduction

NI Water, being a Limited Company, complies with the Companies Act and all Directors have collective responsibility. In compliance with Companies Act and best practice, the Corporate Governance report on pages 91 to 106 sets out the role of the Board and the assessment of its effectiveness in discharging its responsibilities.

NI Water is a Government Owned Company (GoCo) and complies with the MPMNI as set within the MSFM established with DRD. One of the compliance requirements within MPMNI requires a 'Governance Statement' to be included in the Annual report. Given that some of the compliance requirements as specified in Annex 3.1 of MPMNI have already been included in the Governance Report, the Governance Statement needs to be read in conjunction with this report. The Governance Statement forms part of the audited financial statements.

Scope of responsibility

As Chief Executive and Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of NI Water's policies, aims and objectives. I am also responsible for safeguarding the public funds and the Company's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in MPMNI, and as specified in the MSFM agreed between NI Water and DRD.

The governance arrangement complies with the best practice standards of regularity and propriety in the use of Public Funds and the principles of MPMNI. DRD approves NI Water's Annual Budget and Operating Plan and regularly reviews the Company's performance against its targets.

The work of the Company is directed by its Board and Executive Committee. There is a comprehensive reporting and accountability system provided through the Executive Committee, Board and Sub-Committees of the Board who, together with the work of Internal and External Audit, support me in my role as Chief Executive and Accounting Officer.

Governance Framework

The system of internal control is designed to provide a governance framework for decision making and provide proper controls to ensure the safeguarding of resources and the achievement of value for money. The system of internal control is designed to manage risk and opportunity to a reasonable level (rather than to eliminate all risk of failure), and to achieve the Company's vision and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is supported by a risk management framework to provide an ongoing process to identify and prioritise the risks to the achievement of the Company's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control also considers the impact of the risks crystallising and seeks to demonstrate their efficient, effective and economical management. In managing adverse (downside) risks, the leadership team also considers opportunities for making improvements over the year to achieve better outcomes for our customers and improve well-being of our colleagues within a cost effective environment.

The Company applies an integrated approach to governance in ensuring that limited resources are used in a responsible manner. The Company's 'Integrated Governance Framework', supported by the 'Risk and Assurance Framework' provides the appropriate structure in place to facilitate good governance and communication across the business and with key stakeholders. The Company continues to work with professional bodies and within the industry to share good practice and key learning points to further improve on its governance arrangements and risk management, along with on-going research and development with local universities.

The system of internal control has been in place in NI Water for the year ended 31 March 2015 and up to the date of approval of the Annual Report and Accounts, and accords with DFP's and HM Treasury's guidance, where appropriate.

Capacity to handle risk

NI Water's Risk Management Policy is updated on a regular basis and clearly defines the roles and responsibilities of the Board, its Committees, the Executive Committee, Directors and employees. There is a clear chain of accountability from the Accounting Officer to all employees. The Policy provides guidance on how to implement risk assessments and how to manage risk to an acceptable level as determined by the Board. There is an on-going process for identifying, evaluating and managing strategic risks across the business. Risk management is continuing to be embedded in wider management processes. Risk Registers have been developed for each significant area of the business, including major projects, demonstrating the management of risk towards its risk appetite level.

NI Water has an Audit Committee and Risk Committee; both are Sub-Committees of the Board. The Audit Committee reviews financial risk management and receives reports from management and from the Company's Internal and External auditors. The Risk Committee has an oversight function and provides strategic challenge to management on the Company's 'Enterprise Risk Management' and the management of strategic risks towards the achievement of corporate objectives.

The other Board Sub-Committees - the Corporate Social Responsibility Committee, Procurement Committee and the Nomination and Remuneration Committee - review risks associated with their terms of reference.

The Board reviews and monitors the management of significant risks on a monthly basis and provides strategic direction on risks escalated for their attention during the year. These updates are also provided to DRD.

A clear statement of the importance which NI Water attributes to risk management has been conveyed to employees through its intranet (Source). It specifically states that risk management is the responsibility of all employees. Employees are made aware of incidents and near misses and the sharing of key learning points though 'Source' and our Company magazine 'Waterline'. Employees are also updated on risk management within their area of work. A programme of 'Integrated Governance, Internal Controls and Risk Management' training is in place for all levels of management and includes an induction programme for new employees.

Risk management procedures and principal risks are benchmarked against other water and sewerage providers, utility and global risk reports and public sector publications such as the Public Accounts Committee (PAC) reports. 'Horizon Scanning' and 'Forward Risks' activities are carried out to identify emerging risks that may have a corporate impact on NI Water and to implement the key learning points.

The risk and control framework

The management team meets on a quarterly basis to assess and evaluate risks and opportunities and to agree the necessary improvements required to address evolving business needs. The Risk Committee, a Sub-Committee of the Board, reviews strategic risks and the effectiveness of risk management and identifies current and future corporate strategic risks and opportunities. A benchmark report of corporate risks identified by other water and wastewater entities, key matters identified in the Internal Audit Annual Opinion, the Accounting Officer's Annual Assurance Statement, changes in legislation and Government guidance, and a review of emerging business risks is used to inform the corporate risks and opportunities to be managed in the year and future risks relevant to NI Water.

During the financial year, the Company managed its Corporate and Directorate Risk Registers, with clearly defined risk owners. These Registers are reviewed on a continual basis through the risk management software and monthly reports are generated for monitoring purposes. A detailed risk map or opportunity map is used to manage each Corporate Risk/Opportunity identifying its consequences, controls, required actions and key points for strategic risk management is presented to the Risk Committee and Board at least once per year. This takes into account key decisions and seasonal factors where certain risks take priority over others. Corporate risks can be 'drilled down' to business units and to programme or project levels as appropriate, to evidence the effectiveness of controls and required actions. Directorate risks are also escalated to senior management's attention when risks are graded as 'high' or 'medium' in accordance with the Risk Management Model.

The 'risk appetite' is the broad-based amount of risk NI Water is willing to accept in pursuit of its mission and business objectives. The Risk Committee makes recommendations to the Board on the appropriate risk appetite. The Board then approves the risk appetite and reviews the action plans in place to manage the risk exposure. The risk appetite for each corporate risk is assessed on an individual basis and may be different from the overall corporate risk appetite.

Risks are escalated to management and Board through the monthly reporting process. An established escalation process is in place to alert the Chief Executive, Board and Stakeholders (EPIC[22] report) of significant new issues. The Board monitors the progress of managing risks through the monthly progress report which sets out movements in the rating of corporate risks and the reasons for changes. The Board provides a monthly risk management report, at a strategic level, to DRD Shareholder Unit. Risk management is a permanent agenda item in the Quarterly Shareholder Meetings (QSMs) held between the Board of NI Water and the Shareholder, which DRD's Permanent Secretary also attends. Other stakeholders are involved in managing risks which impact upon them.

As specified in the Integrated Governance Framework, various groups meet on a regular basis to manage and report on key risks areas managed across the business, such as Health and Safety, Environmental, Capital Works Programme and Business Continuity Management. Individual Corporate Risk Workshops are held with risk owners over the financial year to manage risks towards the achievement of corporate objectives. The Head of Corporate Governance, who is the Chief Risk Officer, meets on a one-to-one basis with Directors and senior managers on a regular basis to provide a challenge function and ensure consistency in the management and reporting of risks. Further meetings are held with management at a functional level to identify both emerging risks and the key learning points for improving governance and risk management. As relevant, findings from Internal Audit reviews are also considered and reflected in risk reporting as appropriate.

The Internal Controls Committee (ICC), chaired by the Director of Finance and Regulation and represented by all functional areas of the business, ensures that governance procedures, improvements to controls and risk management are managed and communicated on a business-wide basis.

Key risks materialising in year

During the year a number of key risks materialised into potentially significant issues which were managed in an effective manner, such as to limit any negative impact, and address the issues in a timely and controlled manner.

NI Water has advised both the NI Executive and DRD of the implications of reduced Public Expenditure funding. A reduction in Public Expenditure in terms of 'Resource Departmental Expenditure Limit – Resource DEL' in 2015/16 of the scale proposed in both NI Executive and DRD Draft Budget consultations would have required reduced operating costs which would almost certainly have resulted in reduction in service provision to business and domestic customers alike. A reduction in Public Expenditure in terms of 'Capital DEL' will also result in a number of enhancement schemes being delayed. There is the potential for EU infraction proceedings if funding cannot be put in place. While the Board was, on balance, willing to accept the PC15 Final Determination, the 2015/16 funding shortfall and no certainty of funding for the remainder of the PC15 period meant that Board had regrettably no option in the circumstances but to reject the PC15 Final Determination. The Board is strongly of the view that NI Water and DRD assess alternative options before making operational expenditure cuts which could impact on service provision.

[22] Escalation Procedure to Inform the Chief Executive - this is the procedure to inform the Chief Executive in the event of an issue or incident arising which has a material or potentially material adverse impact on NI Water.

Given the governance model for NI Water, there are constraints placed on the Board and management in agreeing employees' terms and conditions and the flexibility available in negotiating the reform to NI Water's Pension Scheme. This led to a sustained period of Industrial Action over the Christmas and New Year period, which resulted in the loss of supply to customers over January 2015. A variety of agencies, organisations and volunteers assisted NI Water's emergency response teams, in line with our emergency plan. While agreement was subsequently reached on pension reform, we still continue to improve our resilience to meet the demands of a major incident response. The Industrial Action had a detrimental impact on Company performance, outputs and reputation.

The current capital funding arrangement for NI Water does not allow for the medium and long term planning of the maintenance and capital investment programme. This creates inefficiency in both the planning and delivery of the programme. In addition, the current system of setting the capital programme within the Utility Regulator's price setting process does not align with the annual cycle of public sector funding. We continue to work closely with our stakeholders to limit the effects this has on our performance and to highlight the need to move to a more suitable delivery model.

The Trade Effluent billing, metering and customer billing areas had a number of issues arising during the year which required reviews of customer accounts and application of adjustments as necessary. Whilst it is not uncommon for utility sector organisations to experience such issues, NI Water is determined to limit such instances as far as possible. To that end, process improvements to both customer metering and billing were implemented during the year. Further improvements are also ongoing and will continue into 2015/16.

Other key control improvements in the year

Additionally, in order to prevent key risks identified during the year materialising into issues, the following key control improvements / risk mitigation actions were completed:

- further improvements made to the Major Incident Plan following the successful mock incident joint exercise with other utility entities and learnings from the Industrial Action;
- project boards and senior management oversight governance arrangements were implemented to oversee the implementation of certain key contracts to improve customer services;
- a structured and controlled programme was initiated to ensure that the Company managed its PC15 business plan submission to the Utility Regulator and the ongoing negotiations between DRD, the Utility Regulator and NI Water to agree short and medium term financial requirements;
- a project plan and oversight project board was put in place to prepare for Centre of Procurement Expertise (CoPE) reaccreditation, which was successfully achieved;
- improvements to the processes to formally monitor and report on contract performance for certain key and strategic contracts;
- following a comprehensive inventory exercise to assure completeness and accuracy of our infrastructure asset inventory, controls have also been implemented to ensure the integrity of this asset data;
- fraud and bribery prevention training and awareness provided to employees and business partners;
- further enhancement to and implementation of the information governance strategy through training and awareness;
- further improvements to financial management procedures to incorporate new guidance and reflect best practice; and
- significant improvement in the completion of mandatory Health and Safety training for operational personnel.

Internal Audit

On an annual basis, prior to the start of the financial year, Internal Audit presents its rolling three-year Strategy to the Audit Committee for approval. The Strategy and the annual Audit Plan sets out the priorities of the internal audit activity and puts in place a strategic approach that enables the Head of Internal Audit to provide the Accounting Officer with an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. It also facilitates the on-going improvement of the organisation's framework of governance, risk management and control by providing line management with recommendations arising from audit and advisory work. The Head of Internal Audit reports to the Accounting Officer and Audit Committee throughout the year on: progress in delivery of the Audit Plan, any significant issues identified, progress in addressing internal audit recommendations and any advisory or ad hoc activity. The Head of Internal Audit provides an 'Annual Opinion' on NI Water's system of governance, risk management and internal control. The Opinion for the year ended 31 March 2015 is 'Satisfactory': 'While there is some residual risk identified this should not significantly impact on the achievement of objectives'. This assurance is based on the results of the internal audit reviews carried out, follow-up reviews, relevant advisory work, all of which inform the consideration of the current overall internal control, governance and risk management framework. Overall, from a total of 18 assurance reviews completed during the year, 2 Limited, 12 Satisfactory and 4 Substantial assurance ratings were issued. Any significant issues raised during the year were sufficiently addressed to the extent that they did not negatively impact the overall annual assurance opinion.

Information Governance

NI Water is proactive in developing and implementing policies and procedures to manage data quality. Information risk management and data quality are key aspects of information governance and are an integral part of sound information management. The Chief Information Officer (CIO), as the Senior Information Risk Owner (SIRO), is responsible for ensuring that information risk within NI Water is managed appropriately. NI Water aims, though adoption of the Information Asset Maturity Model (IAMM) framework, to maintain and continually improve the management of information risk within NI Water. Policies and guidance are in place to manage information risks including IT Security policy, Laptop Security policy, Data Protection policy and guidance, and Document and Information Security Policy (including protective marking). Mandatory on-line training has ensured that employees are aware of their roles and responsibilities with regard to mitigation of information risk. This has been further extended to NI Water business partners and third party contractors. The Information Governance Strategy, in line with DAO (DFP) 10/12, defines the Information Governance roadmap for NI Water highlighting key areas where Information Governance is of crucial importance to the organisation in terms of achieving its business objectives and meeting stakeholders' expectations. The quality and timeliness of information and data used by the Board and its Sub-Committees are deemed to be acceptable and at an appropriate level of detail. This is reflected in the Board and Board's Sub-Committees effectiveness review and information relating to Board reporting in the Governance Report.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of corporate governance, internal control and risk management. My review is informed by the work of the executive managers within NI Water, who have responsibility for the development and maintenance of the internal control framework. I am also informed by other independent sources of assurance, including Internal Audit's independent assurance on the adequacy and effectiveness of the governance, risk management and control arrangements in place to achieve business objectives, comments made by the External Auditors in their management letter and other reports, and the Reporter's report on Systems of Planning and Internal Control. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, Audit Committee and Risk Committee, and a plan to address weaknesses and to ensure that continuous improvement of the system of internal control is in place. A formalised assurance framework to assist me in assessing the extent of compliance with the specified responsibilities, including the effectiveness of the systems of internal control has been developed. This assurance mechanism has been completed as part of an on-going process. The Audit Committee and Risk Committee hold a Joint-meeting on an annual basis to consider the effectiveness of the Company's system of governance, internal control and risk management. As part of its annual review for 2014/15, the Committees considered the Internal Audit Opinion and Chief Executive's Annual Assurance Statement and informed the Board on the overall effectiveness of the Company's system of internal control and risk management.

I am also informed by:

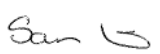
- Board reports including regular monthly agenda items on Health and Safety; Procurement; Environmental; Internal Audit; and Risk and Opportunities;
- Audit Committee reports, including a summary of the main audit issues;
- Risk Committee reports, including prioritised risk management, benchmarking, forward risk analysis, 'horizon scanning' and the effectiveness of risk management towards the achievement of Company's objectives in relation to its risk appetite;
- monthly financial management reports comparing performance against agreed budgets;
- Directorate risk reports and risk registers, including the Corporate Risk Register, are reviewed and managed on a monthly basis;
- actions to address corporate risks which are due but not completed, are escalated to Executive Committee for attention on a monthly basis;
- Mid-Year and Year-End Assurance Statements by Directors and Level 3 managers;
- Subsidy Assurance Statement;
- Internal Audit reports and Annual Assurance Statement;
- Environmental Compliance reports;
- Information Governance reports;
- Financial and Procurement Delegation reports;
- Contract Management and PPP/PFI reports;
- Business Continuity, Major Incidents and Emergency Planning and IT Disaster Recovery exercises, testing and management of incidents reports;
- Fraud, Theft, Bribery and Whistle-blowing reports;
- legal matters and claims reports;
- analysis of Key Performance Indicators;
- External Audit reports;
- Reporter's reports;
- Corporate Compliance Framework bi-annual report to Board; and
- Board oversight and governance.

The year-end Management Assurance Statements include a list of evidence to support management's response and the associated risks. The External Audit opinion for the Statutory, Regulatory and Regularity audits are all 'unqualified' and there is an effective process to manage closure of Management Letter Points. Taking account of the aforementioned matters, I am satisfied that the governance, risk management and internal control framework in NI Water is 'satisfactory' as outlined in the annual Internal Audit Assurance Statement.

Chief Executive's Year-End Assurance Statement – Exception Report

Whilst there is an adequate system of internal control in place in NI Water, a number of matters included in the 'Exception Report', appended to my Annual Assurance Statement to the DRD Accounting Officer, have been identified for further action. Most of the matters are reflected in the 'Principal Risks and Opportunities' section, while others are reported to the Shareholder under Department Accounting Officer reporting requirements.

The Board and I will continue to address these matters. We will also work with our Shareholder, where there is joint accountability on certain risks, to manage them towards the relevant risk appetite level.



Sara Venning
Accounting Officer
24 June 2015

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2015.

Principal activities

The principal activities of the Company are the supply of water and the collection and treatment of sewage in Northern Ireland. The Company is domiciled and incorporated in Northern Ireland. The Registered Number is NI054463 and the Registered Office is: Westland House, 40 Old Westland Road, Belfast, BT14 6TE. The Company is wholly owned by the DRD.

Going Concern

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2015. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Company operates as described below.

- NI Water is subject to economic regulation rather than market competition. As a result, NI Water provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006 which designates Northern Ireland Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland.
- Following the NI Assembly decision to defer the introduction of domestic water charges, NI Water receives funding by means of a subsidy provided by DRD. Due to the level of subsidy, NI Water is also designated as a NDPB and is subject to public sector spending rules i.e. Public Expenditure.
- As required by the Licence, NI Water submitted a Business Plan to the Utility Regulator in March 2014 setting out its proposals for the price control period from 1 April 2015 to 31 March 2021 (PC15). The Utility Regulator published a Draft Determination for consultation in July 2014 and a Final Determination in December 2014.
- On 10 February 2015, NI Water advised the Utility Regulator that the Board would, on balance, have been willing to accept the PC15 Final Determination subject to Public Expenditure funding to the levels established by the PC15 Final Determination, an appropriate risk mitigation mechanism and other flexibilities. However a significant shortfall in Public Expenditure funding in 2015/16 and no clarity of funding for the period beyond 2015/16, meant the Board had no option but to reject the PC15 Final Determination in the circumstances.
- On 3 March 2015, DRD wrote to NI Water confirming the final 2015/16 budget allocation for NI Water. While the gap in Public Expenditure funding for 2015/16 had been bridged somewhat, DRD advised that work will be needed to assess changes to outputs required of NI Water because funding is not at the level required by the Utility Regulator.
- NI Water has been engaging positively with the Utility Regulator and DRD to consider appropriate 2015/16 outputs and the Company anticipates that an agreement will be reached.

On the basis of the discussions the Directors have formed a judgement at the time of approving the financial statements, that the Company will be able to reach an agreement with the Utility Regulator and hence to apply adequate resources to continue in operational existence for the foreseeable future and as such these conditions do not cast a significant doubt on the company's ability to continue as a going concern. Further information on going concern is contained in note 1(c) to the financial statements on page 123.

Future developments

The Directors are not aware at the date of this report of any likely major changes to the Company's activities in the next year.

Dividends and reserves

The Company's dividend policy is to provide a return to the Shareholder based on a percentage of the regulatory capital value less net debt. It is anticipated that a final dividend of £24.7m for the year ended 31 March 2015 (2014: £23.5m[23]) will be approved by the Shareholder upon the recommendation of the Board in July 2015 and paid in August 2015 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2015.

Directors and Officers

The Directors and Officers who served during the year and up to the date of this report are set out below:

Non-Executive Directors:

- *Dr Leonard J. P. O'Hagan CBE - Chairman* (appointed on 1 April 2015). Leonard chairs the Nomination and Remuneration Committee.
- *Seán Hogan, Non-Executive Director - Chairman* (until 31 March 2015). Seán chaired the Nomination and Remuneration Committee was also a member of the Procurement Committee.
- *Donald Price, Non-Executive Director* (until 30 June 2014). Donald was a member of the Audit Committee and the Nomination and Remuneration Committee.
- *Kevin Steele, Non-Executive Director*. Kevin is Chair of the Audit Committee and a member of the Corporate Social Responsibility Committee.
- *Deep Sagar, Non-Executive Director*. Deep is a member of the Risk Committee and the Procurement Committee.
- *John Rae, Non-Executive Director.* John is a member of the Risk Committee and Chair of the Corporate Social Responsibility Committee.
- *Jim Stewart, CBE, Non-Executive Director*. Jim is Chair of the Risk Committee, a member of the Audit Committee and is the Senior Independent Director.

Executive Directors:

- *Sara Venning, Executive Director - Chief Executive*. Sara is responsible for the executive management of all of the Company's business and for implementing Board strategy.
- *Ronan Larkin, Executive Director - Director of Finance and Economic Regulation*. Ronan is responsible for the financial direction and economic regulation of the Company and the relationship with the Utility Regulator.
- *George Butler, Executive Director - Director of Asset Management*. George is responsible for Health and Safety, Scientific Services, Asset Management and for liaising with the environmental regulator. George is also a Chairman of the NI Water Pension Trust Company and a Director of the UK Water Industry Research Company (UK WIR).
- *Alec McQuillan, Executive Director - Director of Customer Service Delivery* (until 11 January 2015). Alex was responsible for water production, networks operation, wastewater treatment, together with all aspects of service to customers.
- *Sean McAleese, Executive Director - Director of Customer Service Delivery* (appointed 12 January 2015). Sean is responsible for water production, networks operation, wastewater treatment, together with all aspects of service to customers.

Further details on our Board, Executive Committee and the organisational structure can be found at:

http://www.niwater.com/ourboard.asp
http://www.niwater.com/ourexecutivecommittee.asp
http://www.niwater.com/siteFiles/resources/htmlfiles/information_management/org_chart.pdf

[23] This dividend in respect of the year ended 31 March 2014 was paid in August 2014.

Directors' remuneration and annual bonus plan

Remuneration for Executive Directors comprises: base salary, a discretionary annual bonus plan and pension entitlements. There was no bonus scheme in place for 2014/15. The Non-Executive Directors do not participate in the Company's incentive arrangements. Details of Directors' emoluments are disclosed in the Directors' remuneration report on pages 111 to 115 and in note 8a to the financial statements.

Directors' and Officers' indemnities

Directors and Officers are indemnified by the Company against costs incurred by them in carrying out their duties, including defending any proceedings brought against them arising out of their positions as Directors; or in which they are acquitted; or judgement is given in their favour; or relief from any liability is granted to them by the Court.

Policy on the payment of creditors

The Company's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative agreements, the policy is to make payment not more than 30 days after receipt of a valid invoice. The year to date ratio, expressed in days, between the time invoices from large suppliers fall due and the time invoices were actually paid at 31 March 2015, was 31.1 days (2014: 31.4 days).

The Company has adopted the public sector supplier payment policy for small and medium sized suppliers of 10 days after receipt of a valid invoice in accordance with the Northern Ireland Executive's policy. As at 31 March 2015, the year to date ratio stood at 11.3 days (2014: 12.6 days).

Political and charitable contributions

The Company made no political or charitable donations nor did it incur any political expenditure during the year.

Research and Development

NI Water invested £0.3m on research and development in 2014/15 (2014: £0.4m). Refer to note 2(d)(i) to the financial statements for the accounting treatment.

Employees

The Company utilises a number of communication channels to keep its employees involved in the Company's affairs and appraised on the Company's performance. These channels include the 'Source' intranet portal; an award winning in house magazine 'Waterline'; weekly employee briefings via 'In touch' and 'In Brief'; and Executive Committee visits. The Company continues to positively engage with the Trade Unions on all employee-related issues through a series of established consultative and negotiative frameworks.

It is the Company's policy to provide employment equality to all, irrespective of gender, including gender re-assignment; marital or civil partnership status; having or not having dependants; religious belief or political opinion; race (including colour, nationality, ethnic or national origins); disability; sexual orientation; or age.

The Company is opposed to all forms of unlawful and unfair discrimination. All job applicants, employees and others who work for the Company will be treated fairly and will not be discriminated against on any of the above grounds. Decisions about recruitment and selection, promotion, training or any other benefit will be made objectively and without unlawful discrimination.

We recognise that the provision of equal opportunities in the workplace is not only good management practice, it also makes sound business sense. NI Water's equal opportunities policy enables all those who work in the Company to develop their full potential, and the talents and resources of the workforce will be utilised fully to maximise the efficiency of the organisation.

Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2015, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the Company in order that the purposes of a special administration order could be achieved if such an order were made.

Regulation - 'cross directorships'

Directors and employees of NI Water may be Directors of related companies when this is in the best interests of NI Water, and where appropriate arrangements are in place to avoid conflicts of interest. These arrangements include prior approval of any cross directorships by the Board and the Shareholder. In addition, Directors holding cross directorships are required to disclose any such interests prior to making decisions which may result in, or give the appearance of, a conflict of interest.

Greenhouse gas emissions

Details on greenhouse gas emissions are included on pages 57 and 59.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken steps they should have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG will therefore continue in office.

By order of the Board

Mark Ellesmere
Company Secretary
24 June 2015

Directors' remuneration report

Report by Dr Leonard J. P. O'Hagan CBE, Chair of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee determines, on behalf of the Board, and subject to approval by the Shareholder, the NI Water policy on the remuneration of Executive Directors and Executives. Only Independent Non-Executive Directors may serve on the Committee. The Committee met three times in the year. The terms of reference for the Nomination and Remuneration Committee are available by writing to our Company Secretary at the address on the back cover of this report.

Board appointments and diversity

The Nomination and Remuneration Committee has responsibility for considering the size, structure and composition of the Board of the Company, retirements and appointments of additional and replacement Directors, succession planning and making recommendations to the Board and Shareholder so as to maintain an appropriate balance of skills and experience on the Board. This includes consideration of gender and ethnic diversity.

Advice to the Nomination and Remuneration Committee

During the year, the following parties were appointed by the Nomination and Remuneration Committee to provide advice that materially assisted the Committee:

- Chief Executive;
- Head of Human Resources; and
- General Counsel and Company Secretary.

Remuneration policy

The Company's policy on remuneration of Executive Directors and Executives is to attract, retain and motivate the best people, recognising the input they have to the on-going success of the business. Consistent with this policy, and in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006, the benefit packages awarded by NI Water to Executive Directors and Executives are intended to be competitive, and under the policy should comprise base salary, and a discretionary performance related bonus designed to incentivise Directors and align their interests with those of the Shareholder. The remuneration consists of the following elements:

Base salaries

Under the policy, base salaries for each Executive Director and Executive should be reviewed annually taking into account inflation. Notwithstanding this policy the Company has been subject to public sector pay policy in 2014/15 as a result of the NI Executive's decision to apply the UK Government's pay instructions for public sector staff.

Annual bonus

There was no bonus scheme in 2014/15 for Executive Directors and Executives.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

Non-Executive Directors' remuneration

The Chairman receives a fee of £833[24] per day and the Non-Executive Directors receive a fee of £750[25] per day. The higher fee for the Chairman reflects the additional responsibilities of that role. Further details on the attendance by the Non-Executive Directors are provided on page 99.

[24] The fee per day is £833 for up to four days per month, increasing to £1,000 per day for a maximum of five additional days.
[25] The fee per day is £750 for up to two days per month, remaining at £750 per day for a maximum of four additional days.

Directors' employment contracts

The Executive Directors covered by this report hold appointments which are open ended. The policy relating to notice periods and termination payments is contained within their service agreements and / or NI Water's Employee Handbook. The Non-Executive Directors covered by this report hold appointments which last for three years and the DRD Minister has the option of re-appointing for a further three years after consideration of a performance assessment.

Fees paid to members of the Executive Committee

	Year to 31 March 2015					Year to 31 March 2014				
	Salary and allowances	**Bonus**	**Benefits in kind (to nearest £100)**	**Pension benefits[26]**	**Total**	Salary and allowances	Bonus	Benefits in kind (to nearest £100)	Pension benefits	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000	£'000
Current Executive Directors:										
Sara Venning	**145 - 150**	**-**	**-**	**55**	**200 - 205**	130 - 135[27]	-	-	51	185 - 190
Ronan Larkin	**120 - 125**	**-**	**-**	**31**	**150 - 155**	105 - 110	-	-	27	135 - 140
George Butler	**110 - 115**	**-**	**-**	**31**	**145 - 150**	105 - 110	-	-	26	135 - 140
Sean McAleese	**20 - 25[28]**	**-**	**-**	**-[29]**	**20 - 25**	n/a	-	-	n/a	n/a
Current members of the Executive Committee (not Executive Directors):										
Bill Gowdy	**90 - 95**	**-**	**-**	**24**	**115 - 120**	90 - 95	-	-	44	130 - 135
Mark Ellesmere	**105 - 110**	**-**	**-**	**30**	**135 - 140**	100 - 105	-	-	26	130 - 135
Former member of the Executive Committee:										
Alec McQuillan	**80 - 85[30]**	**-**	**-**	**136[31]**	**215 - 220**	90 - 95[32]	-	-	146	235 - 240

[26] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases include increases due to inflation and any increase or decrease due to a transfer of pension rights.
[27] £140k - £145k on a full year equivalent basis. Sara Venning was appointed as Interim Chief Executive on 31 August 2013 and Chief Executive on 26 March 2014.
[28] £110k - £115k on a full year equivalent basis. Sean McAleese was appointed as Director of Customer Services Delivery on 12 January 2015.
[29] The value of all pension related benefits are assessed over the period from 12 January 2015, the date on which he was appointed as a Director, to 31 March 2015.
[30] £100k - £105k on a full year equivalent basis. Alec McQuillan ceased to be Interim Director of Customer Service Delivery on 11 January 2015. Alec McQuillan was appointed as Interim Director of Customer Service Delivery on 31 August 2013.
[31] The value of all pension related benefits are assessed over the period from 1 September 2013 to 11 January 2015, the date on which he ceased to be a member of the Executive Committee. The figure is impacted by both the length of pensionable service transferred in from Principal Civil Service Pension Scheme (NI) and in the increase in his assumed final salary.
[32] £100k - £105k on a full year equivalent basis.

Pay multiples

The relationship between the remuneration of the highest paid Director and the median remuneration of NI Water's workforce is shown below. The banded remuneration of the highest paid Director in NI Water was £145k to £150k on a full year equivalent basis (2014: £140k to £145k). This was 5.95 times (2014: 4.23 times) the median remuneration of the workforce, which was £24,796 (2014: £33,677). The change in the pay multiple (ratio) between 2014/15 and 2013/14 was primarily due to the payment of salary arrears to former employees which increased the number of lower-value payments and the total number receiving payments. There was also a reduction in overtime payments made to employees during the year, along with increased apprentices and part time employees. Remuneration includes salary, performance-related pay and benefits-in-kind. It does not include any severance payments associated with NI Water's Voluntary Early Retirement and Voluntary Severance schemes, employer pension contributions and the cash equivalent transfer value of pensions. Median remuneration is based on the full-time equivalent workforce of NI Water at 31 March on an annualised basis. The workforce includes Executive Directors (excluding the highest paid Director) and Non-Executive Directors for the purpose of this disclosure.

	Year to 31 March 2015	Year to 31 March 2014
	Total	Total
Highest paid Director (£'000)	**145 - 150**	140 - 145
Median total remuneration (£)	**24,796**	33,677
Pay multiple (ratio)	**5.95**	4.23

Fees paid to Non-Executive Directors

	Year to 31 March 2015				Year to 31 March 2014			
	Salary and allowances	**Bonus**	**Benefits in kind (to nearest £100)**	**Total**	Salary and allowances	Bonus	Benefits in kind (to nearest £100)	Total
	£000	**£000**		**£000**	£000	£000		£'000
Current Non-Executive Directors:								
Dr Leonard J. P. O'Hagan CBE - Chairman	**-**	**-**	**-**	**-**[33]	-	-	-	-
Kevin Steele	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Deep Sagar	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
John Rae	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Jim Stewart, CBE	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Former Non-Executive Director:								
Seán Hogan	**45 - 50**[34]	**-**	**-**	**45 - 50**	45 - 50[35]	-	-	45 - 50
Donald Price	**0 - 5**[36]	**-**	**-**	**0 - 5**	15 – 20	-	-	15 - 20

[33] Dr Leonard J. P. O'Hagan CBE was appointed as Chairman on 1 April 2015.
[34] Seán Hogan ceased to be Chairman on 31 March 2015. Includes additional days worked. £40k - £45k on a full year equivalent basis.
[35] Includes additional days worked. £40k - £45k on a full year equivalent basis.
[36] Donald Price ceased to be a Non-Executive Director on 30 June 2014.

Pension entitlements

Non-Executive Directors do not participate in the Company's pension scheme. All Executive Directors are members of the defined benefit pension arrangements. The accrued pension entitlement is the amount that the Executive Director would receive if he / she retired at the end of the year. The increase in the accrued entitlement is the difference between the accrued benefit at the year end and that at the previous year end. The pension benefits outlined below are provided through the NI Water defined benefit pension scheme and it was a "mirror image" in terms of benefits and contributions of the Principal Civil Service Pension Scheme (Northern Ireland) as at 1 April 2007. The Executive Directors who transferred to NI Water automatically became members of the new scheme and in January 2009 took a decision whether to transfer their benefits accrued in the Principal Civil Service Pension Scheme (Northern Ireland) to the NI Water scheme. Pension benefits due to Executive Directors are shown below. The Premium section of the Scheme was closed to new starts with effect from 30 November 2010. The Company established a career average re-valued (CARE) defined benefit section for all new starts after that date. The Trustees of the Scheme have agreed to manage the CARE section for the Company. A number of changes to the Scheme for existing members were introduced on 1 April 2015 which did not impact on their accrued benefits up to that date. From 1 April 2015 new employees of NI Water Ltd are automatically entered into the CARE 2015 Section (unless their contracts state otherwise). Further details on pensions are provided in note 21 to the financial statements.

Transfer values

The Cash Equivalent Transfer Value (CETV) for an individual Executive Director is the actuarially assessed capitalised value of the pension scheme benefits accrued at a particular point in time. All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN 11. The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the Director's pension benefits. Transfer values do not represent sums payable to individual Directors and therefore cannot be added meaningfully to annual remuneration.

Increase in transfer value less Directors' contributions

The real increase in CETV shows the increase over the year in the transfer value of the accrued benefits after deducting the Director's personal contributions to the scheme. Further details on Directors' remuneration are shown in note 8a to the financial statements.

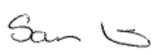
Pension benefits for members of the Executive Committee

	Accrued pension at age 60 at 31 March 2015[37]	Related lump sum at 31 March 2015[38]	Real increase in pension at age 60	Real increase in lump sum at age 60
	£000	£000	£000	£'000
Current Executive Directors:				
Sara Venning	**10 - 15**	**-**	**2.5 - 5**	**-**
Ronan Larkin	**15 - 20**	**-**	**0 - 2.5**	**-**
George Butler	**15 - 20**	**-**	**2.5 - 5**	**-**
Sean McAleese	**45 - 50**	**145 - 150**	**-**	**0 - 2.5**
Current members of the Executive Committee (not Executive Directors):				
Bill Gowdy	**5 - 10**	**25 - 30**	**0 - 2.5**	**2.5 - 5**
Mark Ellesmere	**15 - 20**	**-**	**0 - 2.5**	**-**
Former member of the Executive Committee:				
Alec McQuillan	**45 - 50**	**140 - 145**	**5 - 7.5**	**20 - 22.5**

[37] Or date of leaving the Board if earlier.
[38] Or date of leaving the Board if earlier.

Pension (CETV) benefits for members of the Executive Committee

	CETV at 31 March 2015[39]	CETV at 31 March 2014[40]	**Increase/(decrease) in transfer value less Director's contribution (net of inflation[41])**	**Employer contribution (to nearest £100)**
	£000	£000	**£000**	
Current Executive Directors:				
Sara Venning	**319**	228	**79**	**39,500**
Ronan Larkin	**492**	422	**54**	**31,200**
George Butler	**543**	467	**59**	**30,700**
Sean McAleese	**1,665**	1,645	**(25)**	**6,500**
Current members of the Executive Committee (not Executive Directors):				
Bill Gowdy	**302**	265	**30**	**25,100**
Mark Ellesmere	**414**	352	**48**	**28,900**
Former member of the Executive Committee:				
Alec McQuillan	**1,541**	1,417	**84**	**21,600**



Sara Venning
Chief Executive
24 June 2015

[39] Based on accrued benefits at 31 March 2015 (or date of leaving the Board if earlier) and financial conditions as at 31 March 2015.
[40] Based on accrued benefits at 31 March 2014 (or date of joining the Board if later) and financial conditions as at 31 March 2015.
[41] CPI inflation of 2.7%.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

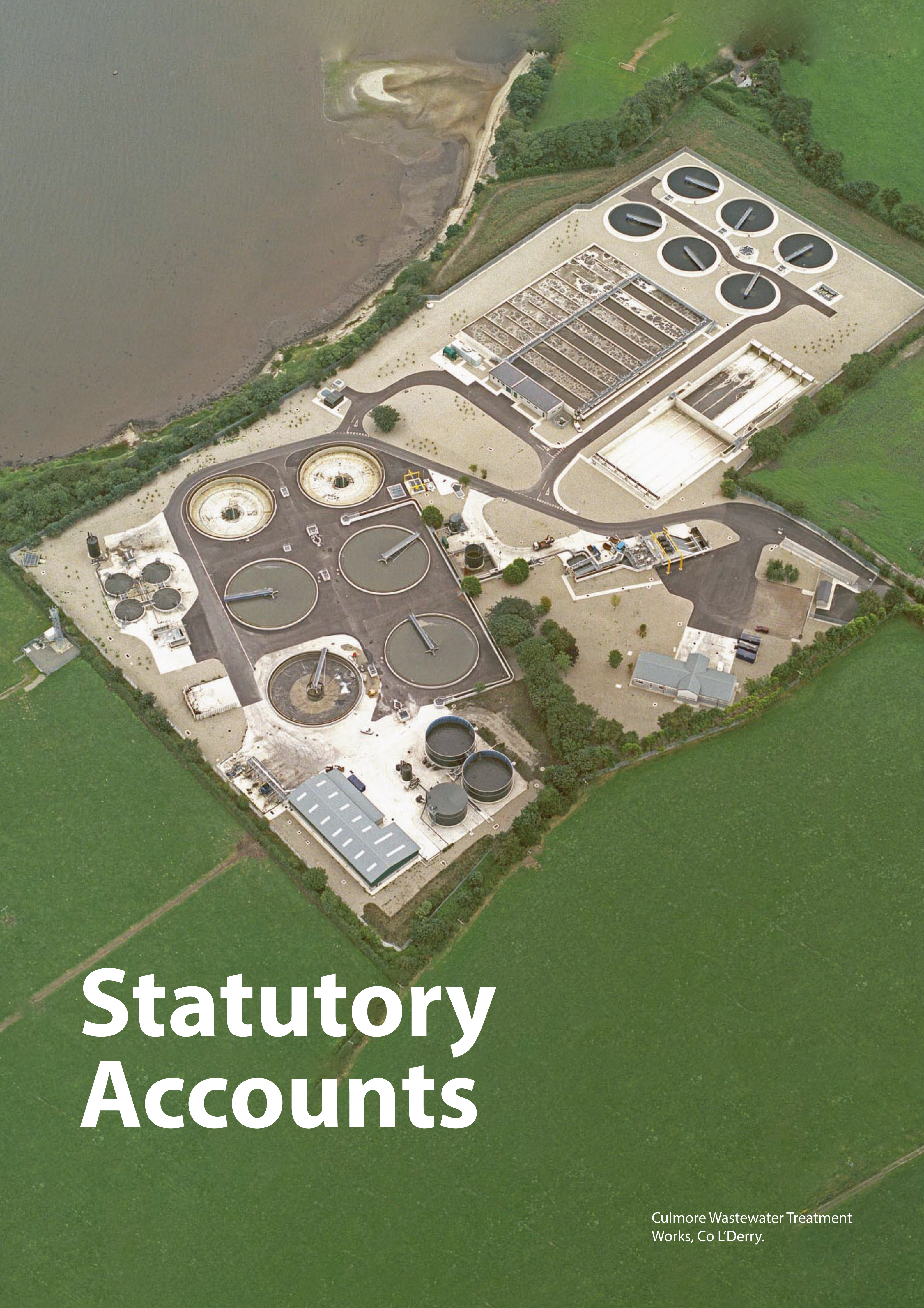
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements and the Directors' remuneration report comply with the Companies Act 2006 and the relevant provisions of the Water and Sewerage Services (Northern Ireland) Order 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Having taken advice from the Audit Committee, the Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Shareholder to assess the Company's performance, business model and strategy.

By order of the Board

Mark Ellesmere
Company Secretary
24 June 2015

Statutory Accounts



Culmore Wastewater Treatment Works, Co L'Derry.

Statement of financial position

	Note	At 31 March 2015 £000	At 31 March 2014 £000
Assets			
Property, plant and equipment	*11*	**2,628,535**	2,484,134
Investment properties	*12*	**6,811**	7,604
Intangible assets	*13*	**37,267**	37,587
Other investments	*14*	**38**	13
Employee benefits	*21*	**-**	3,480
Total non-current assets		**2,672,651**	2,532,818
Inventories	*16*	**2,276**	2,029
Trade and other receivables	*17*	**23,088**	19,193
Prepayments (including accrued income)		**10,749**	10,442
Cash and cash equivalents	*18*	**949**	2,700
Assets classified as held for sale	*4*	**1,009**	853
Total current assets		**38,071**	35,217
Total assets		**2,710,722**	2,568,035
Equity			
Share capital	*19*	**500,000**	500,000
Statutory distributable reserve	*19*	**171,690**	171,690
Retained earnings	*19*	**521,750**	449,031
Available for sale reserve	*19*	**(53)**	(78)
Total equity attributable to owner of the Company		**1,193,387**	1,120,643
Liabilities			
Loans and borrowings	*20*	**1,160,240**	1,127,660
Other payables	*24*	**1,273**	914
Deferred income	*22*	**6,607**	6,635
Provisions	*23*	**1,481**	4,747
Deferred tax liabilities	*15*	**195,656**	174,389
Employee benefits	*21*	**11,630**	-
Total non-current liabilities		**1,376,887**	1,314,345
Loans and borrowings	*20*	**3,420**	2,806
Trade payables	*24*	**119,420**	112,998
Other payables	*24*	**9,843**	8,387
Deferred income	*22*	**2,638**	2,613
Provisions	*23*	**5,127**	6,243
Total current liabilities		**140,448**	133,047
Total liabilities		**1,517,335**	1,447,392
Total equity and liabilities		**2,710,722**	2,568,035

The financial statements were authorised for issue by the Board of Directors on 24 June 2015 and were signed on its behalf by:

Sara Venning
Chief Executive
24 June 2015

The notes on pages 123 to 175 form part of these financial statements.

Statement of comprehensive income

	Note	Year to 31 March 2015	Year to 31 March 2014
		£000	£000
Revenue	5	**425,598**	432,702
Other income	6	**899**	623
Operating expenses	7	**(233,106)**	(236,176)
Research and development expenses		**(297)**	(368)
Results from operating activities		**193,094**	196,781
Finance income	9	**234**	112
Finance costs	9	**(61,856)**	(58,436)
Net finance costs		**(61,622)**	(58,324)
Profit before income tax		**131,472**	138,457
Income tax (expense)/credit	10	**(24,129)**	14,884
Profit for the year		**107,343**	153,341
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Defined benefit plan actuarial (losses)/gains	10	**(11,081)**	8,012
Items that are or may be reclassified to profit or loss:			
Shares not held for trading – revaluation gain/(loss)		**25**	(25)
Other comprehensive income for the period, net of income tax		**(11,056)**	7,987
Total comprehensive income for the period		**96,287**	161,328
Profit attributable to:			
Owner of the Company		**107,343**	153,341
Total comprehensive income attributable to:			
Owner of the Company		**96,287**	161,328

All profits relate to continuing operations.

The notes on pages 123 to 175 form part of these financial statements.

Statement of changes in equity

	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Available for sale £000	Total equity £000
		Attributable to the owner of the Company				
Balance at 1 April 2014	*19*	500,000	171,690	449,031	(78)	1,120,643
Total comprehensive income for the period						
Profit for the year		-	-	107,343	-	107,343
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial losses	*21*	-	-	(13,851)	-	(13,851)
Deferred tax arising on losses in defined benefit plan	*15*	-	-	2,770	-	2,770
Items that are or may be reclassified to profit or loss:						
Shares not held for trading – revaluation gain		-	-	-	25	25
Total other comprehensive income		-	-	(11,081)	25	(11,056)
Total comprehensive income for the period		-	-	96,262	25	96,287
Transactions with owner, recognised directly in equity						
Distributions to owner of the Company						
Dividends to owner of the Company	*19*	-	-	(23,543)	-	(23,543)
Balance at 31 March 2015		500,000	171,690	521,750	(53)	1,193,387
Dividends per share (GBP)						0.05

The notes on pages 123 to 175 form part of these financial statements.

Statement of changes in equity (continued)

	Note	Attributable to the owner of the Company				
		Share capital £000	**Statutory distributable reserve £000**	**Retained earnings £000**	**Available for sale £000**	**Total equity £000**
Balance at 1 April 2013	*19*	500,000	171,690	316,724	(53)	988,361
Total comprehensive income for the period						
Profit for the year		-	-	153,341	-	153,341
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial gains	*21*	-	-	10,015	-	10,015
Deferred tax arising on gains in defined benefit plan	*15*	-	-	(2,003)	-	(2,003)
Items that are or may be reclassified to profit or loss:						
Shares not held for trading – revaluation loss		-	-	-	(25)	(25)
Total other comprehensive income		-	-	8,012	(25)	7,987
Total comprehensive income for the period		-	-	161,353	(25)	161,328
Transactions with owner, recognised directly in equity						
Distributions to owner of the Company						
Dividends to owner of the Company	*19*	-	-	(29,046)	-	(29,046)
Balance at 31 March 2014		500,000	171,690	449,031	(78)	1,120,643
Dividends per share (GBP)						0.06

The notes on pages 123 to 175 form part of these financial statements.

Statement of cash flows

	Note	**Year to 31 March 2015 £000**	Year to 31 March 2014 £000
Cash flows from operating activities			
Profit before tax		**131,472**	138,457
Adjustments for:			
Depreciation	*11,12*	**60,745**	62,097
Amortisation of intangible assets	*13*	**7,086**	5,612
Impairment losses on assets classified as held for resale		**42**	75
Notional income relating to adopted assets	*5*	**(48,406)**	(59,566)
Gain on sale of property, plant and equipment	*6*	**(525)**	(276)
Interest expense	*9*	**61,622**	58,324
		212,036	204,723
Changes in:			
- inventories		**(247)**	358
- trade and other receivables		**(3,701)**	(292)
- prepayments		**(307)**	1,143
- trade and other payables		**15,594**	6,046
- provisions		**(4,382)**	722
- excess of charge over cash pension contributions		**1,219**	881
Cash generated from operating activities		**220,212**	213,581
Cash flows from investing activities			
Interest received		**80**	114
Proceeds from sale of property, plant and equipment		**1,046**	1,164
Acquisition of property, plant and equipment, and intangible assets		**(170,603)**	(170,295)
Grants received		**238**	-
Net cash used in investing activities		**(169,239)**	(169,017)
Cash flows from financing activities			
Proceeds from borrowings		**36,000**	29,000
Payment of finance lease liabilities		**(2,806)**	(2,199)
Interest paid		**(61,799)**	(60,401)
Dividends paid	*19*	**(23,543)**	(29,046)
Tax paid		**(576)**	(90)
Net cash from financing activities		**(52,724)**	(62,736)
Net decrease in cash and cash equivalents		**(1,751)**	(18,172)
Cash and cash equivalents at 1 April	*18*	**2,700**	20,872
Cash and cash equivalents at 31 March	*18*	**949**	2,700

The notes on pages 123 to 175 form part of these financial statements.

Notes to the Statutory Accounts

1 Accounting policies

(a) Reporting entity
Northern Ireland Water (the Company) is a company domiciled in Northern Ireland. The address of the Company's registered office is Westland House, 40 Old Westland Road, Belfast, BT14 6TE. The Company is primarily involved in the supply of water and the collection and treatment of sewerage in Northern Ireland.

(b) Basis of preparation
Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and with the Companies Act 2006.

The Company's accounting policies, as set out below, have, unless otherwise stated, been consistently applied to all the years presented.

The financial statements were authorised for issue by the Board of Directors on 24 June 2015.

(c) Basis of measurement
The financial statements have been prepared on the historical cost basis except for the defined benefit asset which is recognised as the net total of the plan assets less the present value of the defined benefit obligation, and the investments which are held at fair value through Other Comprehensive Income. The defined benefit pension asset represents a material item in the statement of financial position (SOFP).

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2015. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Company operates as described below.

NI Water is subject to economic regulation rather than market competition. As a result, NI Water provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006 which designates Northern Ireland Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland.

Following the NI Assembly decision to defer the introduction of domestic water charges, NI Water receives funding by means of a subsidy provided by DRD. Due to the level of subsidy, NI Water is also designated as a NDPB and is subject to public sector spending rules i.e. Public Expenditure.

As required by the Licence, NI Water submitted a Business Plan to the Utility Regulator in March 2014 setting out its proposals for the price control period from 1 April 2015 to 31 March 2021 (PC15). The Utility Regulator published a Draft Determination for consultation in July 2014 and a Final Determination in December 2014. The Final Determination establishes the funding required by NI Water to meet Departmental targets contained within the Social and Environmental Guidance and requires NI Water to deliver enhanced regulatory outputs, continued investment, improvement in service and efficiencies.

On 10 February 2015, NI Water advised the Utility Regulator that the Board would, on balance, have been willing to accept the PC15 Final Determination subject to Public Expenditure funding to the levels established by the PC15 Final Determination, an appropriate risk mitigation mechanism and other flexibilities. However a significant shortfall in Public Expenditure funding in 2015/16 and no clarity of funding for the period beyond 2015/16, meant the Board had no option but to reject the PC15 Final Determination in the circumstances.

1 Accounting policies (continued)

On 3 March 2015, DRD wrote to NI Water confirming the final 2015/16 budget allocation for NI Water. While the gap in Public Expenditure funding for 2015/16 had been bridged somewhat, DRD advised that work will be needed to assess changes to outputs required of NI Water because funding is not at the level required by the Utility Regulator.

NI Water has been engaging positively with the Utility Regulator and DRD to consider appropriate 2015/16 outputs and the Company anticipates that an agreement will be reached. During the ongoing discussions, the Utility Regulator has not given any indications that it would consider rescinding the Licence in the future and all parties are working together to reach a satisfactory conclusion.

On the basis of the discussions the directors have formed a judgement at the time of approving the financial statements, that the company will be able to reach an agreement with the Utility Regulator and hence to apply adequate resources to continue in operational existence for the foreseeable future and as such these conditions do not cast a significant doubt on the company's ability to continue as a going concern.

The Company has the following short-term and long-term cash and bank facilities:

- a new capital loan arrangement to 31 March 2021 has been established to fund the capital expenditure for the business. This also includes the facility to drawdown loan notes to cover unforeseen events/emergency situations;
- DFP has confirmed that the £20m working capital facility will be extended to 31 March 2021 which will provide access to cash facilities for short-term needs and for unforeseen events/emergency situations;
- the Subsidy Agreement with DRD permits the early drawdown of subsidy in year if the cash is required; and
- DFP has confirmed that the Company will continue to access transactional banking services under any new Northern Ireland Civil Service arrangements established from 1 April 2016.

Further information is included in note 3 (liquidity risk).

(d) Functional and presentation currency
These financial statements are presented in pound sterling (GBP), which is the Company's functional currency. All financial information presented in GBP has been rounded to the nearest thousand.

(e) Changes in accounting policies
There were no additional standards, amendments and interpretations that had a material impact of the Company's financial statements during the year. The following standards, amendments and interpretations were effective for accounting periods beginning on or after 1 April 2014 and these have been adopted in the Company financial statements:

- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interest in other Entities, IAS 27 Separate Financial Statements (2014) which supercedes IAS 27 (2008) and IAS 28 Investments in Associates and Joint Ventures (2014) which supercedes IAS 28 (2008);
- amendments to IAS 32 Financial Instruments – Offsetting financial assets and financial liabilities;
- amendments to IAS 39 – Novation of Derivatives and Contribution of Hedge Accounting; and
- IFRIC 21 Levies.

None of the above had a significant impact on the Company.

1 Accounting policies (continued)

(f) Critical accounting estimates and judgements
The preparation of the financial statements, in conformity with IFRSs, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- note 17 – trade and other receivables;
- note 21 – measurement of defined benefit pension obligations;
- notes 23 and 28 – provisions and contingencies; and
- note 2(q) and note 25 – measurement of fair values.

2 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

(a) Financial instruments

(i) Non-derivative financial assets
The Company initially recognises loans and receivables and deposits on the date that they originate. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the SOFP when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company's receivables are non-derivative financial assets.

Receivables
Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method, less any impairment losses. Receivables comprise of trade and other receivables (see note 17).

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less and are measured at amortised cost.

2 Significant accounting policies (continued)

Other investments
Other investments consist of ordinary shares in WRc PLC (see note 14). Subsequent to initial recognition these are measured at fair value and the changes are recognised through other comprehensive income. When an investment is impaired or sold the cumulative gain or loss is reclassified to profit or loss.

(ii) Non-derivative financial liabilities
All loans and borrowings are initially recognised at fair value, typically being the consideration received, net of issue costs.

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. Financial assets and liabilities are offset, and the net amount presented in the SOFP when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

(iii) Share capital
Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(b) Property, plant and equipment
(i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of certain items of property, plant and equipment was determined by reference to a previous UK GAAP revaluation. The Company elected to apply the optional exemption to use this previous revaluation as deemed cost at 1 April 2009, the date of transition (see note 11).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located (when there is an obligation to remove the asset), and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Assets in the course of construction
Assets in the course of construction are separately classified within property, plant and equipment until the date of commission at which stage they are transferred. Depreciation on these assets is not charged until they are brought into use.

2 Significant accounting policies (continued)

(iii) Subsequent costs
The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Infrastructure assets
The infrastructure assets comprise a network of water and wastewater systems including mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls. All items of property, plant and equipment within infrastructure assets are subject to depreciation.

In accordance with the transition provisions of IFRS 1 (revised), the Company identified the carrying value of these assets as at the inception of the Company and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, have been subject to depreciation over their useful economic lives. All subsequent maintenance expenditure is chargeable directly to the Statement of Comprehensive Income (SOCI).

(v) Transfers of infrastructure assets from customers (adopted assets)
The Company adopts infrastructure assets from customers, e.g., water and sewer pipes from property developers, which it must then use either to connect the customers to the network or to provide the customers with on-going access to a supply of services. In some cases, the Company receives cash from customers that must be used only to acquire or construct an infrastructure asset in order to connect the customer to the network or provide the customer with on-going access to a supply of services.

Adopted assets are valued using the unit costs set during the relevant price control period (currently termed ‘PC13’).

Revenue is recognised when the infrastructure assets are adopted or, in the case of cash receipts, when the service is performed, e.g., as soon as access to the sewerage / water network is provided.

The Company has applied the approach above from 1 April 2007.

(vi) Depreciation
Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Asset Type	Asset Life
Infrastructure assets	100 -150 years
Operational assets	40 - 80 years
Buildings	30 - 60 years
Fixed plant	3 - 40 years
Vehicles, mobile plant and equipment	4 - 10 years
Office equipment	3 - 10 years

2 Significant accounting policies (continued)

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(c) Investment properties
Investment properties are properties held as surplus to operational requirements or for capital appreciation; but not for immediate sale, use in the supply of services, or for administrative purposes. As permitted by IAS 40, investment properties are measured using the cost model specified in IAS 16 whereby properties are recorded initially at cost and subsequently at cost less accumulated depreciation and any accumulated impairment losses.

When property changes use from operational, or occupied, to surplus property it is reclassified from property plant and equipment to investment property. Transfers between classes do not change the carrying amount of the property transferred or the cost of the property for measurement or disclosure purposes (see 2(h) for further details).

(d) Intangible assets
(i) Research and development
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Other intangible assets
Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Intangible assets in the course of development
Intangible assets in the course of development, e.g., internally generated software, are separately classified within intangible assets, as assets in the course of construction, until the date of commission at which stage they are transferred. Amortisation on these assets is not charged until they are brought into use.

(iv) Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as occurred.

(v) Amortisation
Amortisation is based on the cost of the asset, less its residual value. Amortisation is recognised in the ‘operating expenses’ line of the SOCI on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The useful lives are finite and are as follows for the current and comparative periods:

2 Significant accounting policies (continued)

Asset Type	**Asset Life**
Computer software	3 - 7 years
Capital studies infrastructure	10 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(e) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

PPP transactions

Where public service obligations are met in conjunction with other operators through a partnership arrangement the principles of IFRIC 12 are applied. Assets are included within property, plant and equipment and amounts due to PPP partners are included in PPP credits. Assets included in property plant and equipment are depreciated in accordance with normal accounting policies. The present value of the PPP financing is included within loans and borrowings and payments made are split between capital repayments and interest.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, that the loss event had a negative effect on the estimated future cash flows of that asset and it can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The bad debt provision is based on applying expected recovery rates, based on actual historical cash collection performance, to an aged debt profile.

(ii) Receivables

The Company considers evidence of impairment for receivables. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

2 Significant accounting policies (continued)

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries, and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(iii) Non-financial assets
The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset, or its related cash-generating unit (CGU), exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU).

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. However an impairment loss recognised for goodwill cannot be reversed.

(h) Non-current assets held for sale or distribution
Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. The principal assets within this category are non-operational land and buildings. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Company's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

2 Significant accounting policies (continued)

(i) Employee benefits

(i) Defined benefit plans

The Company operates a defined benefit pension scheme for all employees. The assets of the scheme are held separately from those of the Company. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(ii) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring, in line with the policy on provisions –see (j) below. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(j) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(k) Revenue recognition

Revenue is recognised when the risks and rewards of ownership are transferred to the customer, recovery of consideration is probable and the amount of revenue can be reliably measured. Revenue is not recognised until the service has been provided to the customer and is shown net of value added tax. Where services have been provided, but for which no invoice has been raised at the year end, an estimate of the value is included in revenue. For measured customers, this includes an estimate of the value of water and wastewater services supplied to customers between the date of the last meter reading and the year-end. For unmeasured customers billed in advance, income is deferred and released to the income statement throughout the year.

2 Significant accounting policies (continued)

Revenue comprises: the customer subsidy provided by DRD primarily relating to the deferment of the introduction of domestic charges that were planned for 1 April 2007; charges to customers for water and wastewater services and related services; road drainage income from DRD; transfers of assets from customers, e.g., sewer adoptions from developers; connection and infrastructure charges and other third party contributions.

Under UK GAAP the total value of transfers of assets from customers, connection and infrastructure charges, and other third party contributions, was deducted from the costs of these assets on the balance sheet thereby netting-off to a nil balance. However, under IFRS, the transfers of assets, connection and infrastructure charges, and other third party contributions are recognised as revenue whenever the service is performed, i.e., as soon as access to the sewerage / water network is provided.

As permitted by the transition provisions (IFRIC 18.22) the Company has opted to apply the approach above prospectively from 1 April 2007.

(l) Government grants
New government grants and legacy grants to DRD Water Service were credited to 'deferred income' within liabilities at fair value and are released to profit or loss evenly over the expected useful life of the relevant asset, in accordance with the provisions of the Companies Act 2006. The Company receives government assistance, in the form of a customer subsidy, provided by DRD primarily in relation to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The customer subsidy is presented in revenue in the SOCI (see note 5). A capital subsidy is received from DRD in relation to requisitioning of water and sewerage infrastructure for older properties. Similarly to all capital contributions from customers, and in accordance with IFRIC 18, this is credited directly to revenue within the SOCI (see related parties note 29).

***(m)* Lease payments**
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(i) Leased assets
Assets held by the Company under leases which transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the SOFP.

(ii) Determining whether an arrangement contains a lease
At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

(n) Finance income and finance costs
Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

2 Significant accounting policies (continued)

Finance costs comprise: interest expense on borrowings; unwinding of the discount on provisions; and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Finance income on pension assets and finance costs on pension liabilities are shown net in the financial statements.

(o) Income tax
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is not recognised for temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss. For investment property that is measured at depreciated cost, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency of the entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Exchange differences are taken to profit or loss.

(q) Determination of fair values
IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A number of the Company's accounting policies and disclosures require the measurement of fair values, both financial and non-financial assets and liabilities.

2 Significant accounting policies (continued)

Management have established a control framework with respect to the measurement of fair values and regularly review significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observables for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in note 25 – financial instruments.

(r) New standards, amendments to or interpretations of standards not yet adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2015 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements except for:

- IFRS 9 Financial Instruments*, which is likely to become mandatory (subject to EU endorsement) for the Company's 2019 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of this impact has not yet been determined;
- IFRS 15 Revenue from contracts with customers (Mandatory for year commencing 1 January 2018)*. This could change the accounting treatment for transfer of assets from customers, connection and infrastructure charges. The Company has not yet determined the extent of the impact of this standard or considered the matter of early adoption; and
- amendments to IAS16 and IAS38: Clarification of Acceptable Methods of Depreciation and Amortisation which is likely to become mandatory (subject to EU endorsement) for the Company's 2016 financial statements*. The Company has not yet determined the extent of the impact of this standard or considered the matter of early adoption.

Other standards and interpretations not adopted are outlined below:

- amendments to IAS 19 Defined Benefit Plans: Employee Contributions (Mandatory for the year commencing on or after 1 February 2015);
- annual improvements to IFRS's 2010 – 2012 Cycle and 2011-2013 Cycle (Mandatory for the year commencing on or after 1 February 2015);

2 Significant accounting policies (continued)

- IFRS 14 Regulatory Deferral Accounts (Mandatory for the year commencing on or after 1 January 2016)*;
- amendments to IFRS 11 Accounting for acquisition of interests in joint ventures (Mandatory for the year commencing on or after 1 January 2016)*;
- amendments to IAS 16 Property, Plant and Equipment and IAS 41 Bearer Plants (Mandatory for year commencing 1 January 2016)*;
- amendments to IAS 27 Equity method in Separate Financial Statements (Mandatory for year commencing 1 January 2016)*;
- amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (Mandatory for year commencing 1 January 2016)*;
- amendments to IAS 1: Disclosure Initiative (Mandatory for year commencing 1 January 2016)*
- amendments to IFRS 10, IFRS 11 and IAS 28: Investment Entities: Applying the consolidation exemption (Mandatory for year commencing 1 January 2016)*; and
- annual improvements to IFRSs 2012-2014 Cycle (Mandatory for year commencing 1 January 2016)*.

*Not yet EU endorsed. The effective dates above refer to the EU effective dates to the extent they have been amended and otherwise as IASB effective dates.

3 Financial risk management

Overview
The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk;
- interest rate risk; and
- foreign exchange risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital and operational risk. Further quantitative disclosures are included throughout these financial statements. These risks are managed within the risk management framework of the Company as described below.

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment deposits. Credit control policies and procedures are determined by the Company and applied by a third party collection agent. There is an eight step process for chasing debt over an eight week period starting from the issue of the bill through to court/litigation proceedings. Key accounts are closely monitored by Key Account Managers. Aged debt older than 180 days is monitored by an aged debt team who identify and escalate reasons for non-payment, and perform collection and recovery activities in line with the Company's policies and procedures. Depending upon the customers' circumstances, repayments plans can be offered up to a period of 12 months.

3 Financial risk management (continued)

Trade and other receivables
NI Water has a statutory obligation to provide water and sewerage services to customers within its region. Approximately 66% of the Company's revenue is in the form of a customer subsidy provided by DRD.

This primarily relates to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The credit risk in relation to the remaining 34% is mitigated by the credit control policies outlined above. Excluding the Company's subsidy from DRD, there is no concentration of credit risk with respect to its trade receivables.

Investment deposits
In accordance with the Shareholder Governance Arrangements the main banking services were transacted through the Northern Ireland Civil Service contract. As approved by DRD, and by DFP, other banking relationships have been instigated to manage financial counterparty risks arising from deposits of short term funds available for investment. Financial counterparty risks are managed through the use of credit limits and continuous monitoring procedures. Treasury policy is as follows:

- deposits with banks other than main relationship bank (MRB) only placed if other bank holds investment grade credit rating issued by main credit rating agency, i.e., Standard and Poor's, Moody's or Fitch;
- maximum exposure of £30m in other banks; and
- no more than 50% of funds held in any bank other than MRB, which may hold up to 100% of funds.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Treasury Function employs a continuous forecasting and monitoring process to manage cash, funding and liquidity risks. The Treasury Function invests any short term funds available for deposit based on its forecasted liquidity requirements and in accordance with the shareholder governance arrangements and the Company's treasury policies. During the year the Company maintained a £20m working capital facility provided by DRD for the period to 31 March 2016. Borrowings on the facility are repayable on demand. Interest is payable at a floating rate of the London Interbank Offered Rate (LIBOR) + 0.35%. The facility outlined above was not utilised at 31 March 2015.

The Company's net current liabilities can be met using the capital loan note facility (see note 20) and working capital facility provided by DRD.

A new capital loan arrangement to 31 March 2021 has now been established with DRD.

DFP has confirmed that the £20m working capital facility will be extended to 31 March 2021.

3 Financial risk management (continued)

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest Rate Risk
Interest rates on borrowings at 31 March 2015 were at fixed rates. The Company has a committed borrowing facility available but unused at the year end on which interest is charged at floating rates based on LIBOR plus a margin as set out above. Interest rates on fixed term deposits are fixed for the period of investment. The Company also maintains instant access investment accounts on which interest is earned at rates based on the Bank of England Base rate.

Foreign Exchange Risk
The Company is not exposed to significant foreign exchange transactions.

Operational risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation, with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

3 Financial risk management (continued)

Capital management
The Company deems its capital to consist of 500 million £1 ordinary shares, a statutory distributable reserve and a retained earnings reserve. A report on capital is prepared for the Board on an annual basis to ensure adequate cover exists for the payment of the Company's dividend. There were no changes in the Company's approach to capital management during the year.

Other risks
Other risks identified by the Company are outlined under 'Principal Risks and Uncertainties' on pages 12 to 15.

4 Non-current assets held for sale

The Company's Land Management Department is focused on selling the properties no longer required for operational purposes. Efforts to sell the assets have commenced and where the sale is expected by March 2016 these properties have been classified as held for sale in current assets.

	At 31 March 2015 £000	At 31 March 2014 £000
Property, plant and equipment	**1,009**	853

A gain of £164k (2014: £126k) on disposal of non-current assets held for sale is included within 'Other income' in the SOCI.

5 Revenue

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Customer subsidy provided by DRD	**279,624**	277,345
Customer income	**71,320**	69,155
Road drainage income provided by DRD	**19,154**	20,049
Transfers of assets from customers	**48,406**	59,566
Connection and infrastructure charges	**5,463**	4,939
Other third party contributions	**1,631**	1,648
	425,598	432,702

Customer subsidy provided by DRD
The customer subsidy provided by DRD primarily relates to the deferment of the introduction of domestic charges.

Customer income
The revenue has been received (excluding VAT) in the ordinary course of business for services provided and in respect of unbilled charges. These unbilled charges relate to measured customers who at the end of the financial year have consumed supplies that have not yet been billed. An estimate is made of the value of the outstanding charges at year end and this is recognised in revenue.

Road drainage income provided by DRD
This revenue from DRD Transport NI represents the recovery of the costs incurred by the Company in dealing with the run-off of water from roads and footpaths.

5 Revenue (continued)

Transfers of assets from customers
The Company receives items of property, plant, and equipment from customers, e.g., sewer pipes, pumping stations etc. from property developers, which it must then use either to connect customers to the network or to provide customers with on-going access to a supply of services. The deemed capital value of the transferred asset is included as revenue.

Connection and infrastructure charges
Connection charges relate to the cash charge to customers to connect a property to the water or sewerage network. This charge covers the capital cost of the connection. Infrastructure charges are also levied at the point of connection to the network. Infrastructure charges income is used to partly fund the overall capital programme. Connection and infrastructure charges are recognised in revenue immediately when levied.

Other third party contributions
This includes customer contributions towards requisitioning of water or sewerage network pipes. The customer will only make a contribution when the scheme would be considered uneconomical without this contribution. Other third party contributions also include fees charged for the transfer of assets from customers ('adoption' of assets). Contributions in relation to requisitioning and other third party fees are recognised on receipt.

6 Other income

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Net gain on sale of property, plant and equipment	**525**	276
Amortisation of deferred grants and contributions	**374**	347
	899	623

7 Operating expenses

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Raw materials and consumables	**8,765**	9,279
Other operating expenses*	**113,890**	115,661
Staff costs	**54,767**	55,073
Own work capitalised**	**(12,189)**	(11,621)
Depreciation and other amounts written off tangible and intangible assets	**67,873**	67,784
Total operating expenses	**233,106**	236,176

7 Operating expenses (continued)

*Other operating expenses comprise:

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Power	**32,682**	34,134
Rates	**13,881**	12,811
Hire and contracted services	**57,453**	57,190
Other operating expenses	**9,874**	11,526
Total other operating expenses	**113,890**	115,661

** Own work capitalised includes payroll costs (see note 8), materials and overheads.

NI Water invested £0.3m on research and development in the year ended 31 March 2015 (2014: £0.4m).

The net increase in inventories for the year was £247k (2014: £358k decrease).

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Impairment loss on investment properties/assets classified as held for sale	**96**	75
Impairment loss realised on trade receivables	**837**	724
	933	799

The impairment losses above are included within the 'operating expenses' line of the SOCI. The events and circumstances leading to the recognition of the impairment losses in investment properties are outlined in note 12.

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Auditors' remuneration:		
Audit of statutory financial statements	**54**	54
Audit of regulatory financial statements	**17**	17
Audit of whole of government account submission	**1**	1
Other assurance opinions	**22**	22
	94	94
Amounts receivable by the auditor in respect of:		
Other services relating to taxation	**-**	44
Accounting and regulatory advice	**11**	11
	11	55
Total fees paid to the auditor	**105**	149

8 Personnel numbers and expenses

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	No. of employees Year to 31 March 2015	No. of employees Year to 31 March 2014
Directors	**10**	10
Non-industrial staff	**754**	772
Industrial staff	**489**	481
	1,253	1,263

The gender of persons employed by the Company (including Directors) during the year, analysed by category, was as follows[42]:

	No. of employees Year to 31 December 2014			No. of employees Year to 31 December 2013		
	Male	**Female**	**Total**	Male	Female	Total
Directors and senior managers	**45**	**12**	**57**	48	11	59
Non-industrial staff	**447**	**217**	**664**	457	221	678
Industrial staff	**504**	**7**	**511**	517	6	523
	996	**236**	**1,232**	1,022	238	1,260

The aggregate payroll costs of these persons were as follows:

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Wages and salaries	**39,818**	39,655
Social security costs	**2,999**	3,113
Other pension costs	**11,950**	12,305
	54,767	55,073

An amount of £10,468k (2014: £9,819k) of the above payroll costs has been capitalised as it relates to work carried out by the Company that adds to the value of property, plant and equipment and intangible assets.

8a Key management personnel short-term employee benefits

Detailed information concerning key management personnel's remuneration, bonus payments and pensions is included in the Directors' remuneration report on pages 111 to 115. Key management includes all Board members and members of the senior management team who influence the decisions of the Company, i.e., members of the Executive Committee.

[42] Based on statutory returns made to the Equality Commission on a calendar year basis.

8a Key management personnel short-term employee benefits (continued)

In summary, key management personnel compensation comprised:

	Year to 31 March 2015	Year to 31 March 2014
	£000	£000
Short-term employee benefits	**813**	839
Post-employment benefits	**184**	182
	997	1,021

The emoluments of the highest paid Director were £147k (2014: £135k).

There are amounts included in the SOCI in respect of actuarial gains and losses attributable to key management personnel, however, it is considered impractical to provide a breakdown of the actuarial gains / losses relating to individual members. While some elements resulting in gains / losses are easy to measure on an individual basis e.g. the effect of salary increases, others would involve allocating a share in investment returns and other scheme experience (deaths / retirements) which cannot be attributed to individual members.

8b Exit packages

The exit packages for employees who left the Company during the year are reported below. The majority of the exit packages relate to the Voluntary Early Retirement and Voluntary Severance (VER / VS) schemes which were used to facilitate the targeted reduction in headcount. The VER / VS schemes are similar to the Northern Ireland Civil Service (NICS) scheme and incorporate the provisions of relevant age discrimination legislation. All applications are considered in terms of overall cost and business need. Overall cost in individual cases is based on length of service and pensionable pay figures. Ill-health retirement costs are met by the pension scheme and are not included in the exit packages.

Exit package cost band	**Number of compulsory redundancies 31 March 2015**	**Number of other departures agreed 31 March 2015**	**Total number of exit packages by cost band 31 March 2015**	Number of compulsory redundancies 31 March 2014	Number of other departures agreed 31 March 2014	Total number of exit packages by cost band 31 March 2014
£000						
0 – 10	**-**	**2**	**2**	-	2	2
10 – 25	**-**	**6**	**6**	-	12	12
25 – 50	**-**	**1**	**1**	-	1	1
50 – 100	**-**	**3**	**3**	-	6	6
Above 100	**-**	**2**	**2**	-	2	2
Total number	**-**	**14**	**14**	-	23	23
Total cost (£'000)	**-**	**823**	**823**	-	980	980

8c Off-payroll engagements

In accordance with DFP disclosure guidance - FD (DFP) 01/15, the Company can confirm that there were six 'off payroll' engagements at a cost of over £58,200 per annum in place during 2014/15.

	Year to 31 March 2015 number	Year to 31 March 2014 number
Number of engagements as at 1 April	**2**	-
Number of new engagements during the year	**4**	2
Number of engagements that have come on to the Company's payroll during the year	**-**	-
The number of engagements that have come to an end during the year	**(1)**	-
Number of engagements as at 31 March	**5**	2

No procurement exercises relating to off payroll engagements commenced after 1 October 2014.

9 Finance income and finance costs

Recognised in profit or loss

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Interest income on bank deposits	**79**	112
Finance income on pension scheme	**155**	-
Net finance income	**234**	112
Financing charges on pension scheme	**-**	(300)
Interest expense on financial liabilities measured at amortised cost	**(41,481)**	(37,548)
Interest on PPP financing arrangements	**(20,375)**	(20,588)
Finance costs	**(61,856)**	(58,436)
Net finance costs recognised in profit or loss	**(61,622)**	(58,324)

All finance income and finance costs above relate to assets / (liabilities) not at fair value through profit or loss.

Of the above amount £45,312k (2014: £41,426k) was payable to DRD in relation to loan notes issued (see note 20 'Loans and borrowings' and note 29 'Related parties'). Interest of £3,886k was capitalised in the year (2014: £3,911k).

10 Income tax expense

		Year to 31 March 2015 £000	Year to 31 March 2014 £000
Tax recognised in profit or loss			
Current tax expense			
Current year		**(198)**	**(266)**
Adjustment for prior years		**106**	**(282)**
		(92)	**(548)**

		Year to 31 March 2015 £000	Year to 31 March 2014 £000
Deferred tax			
(Origination) and reversal of temporary differences*		**(25,844)**	(10,726)
Adjustment to prior years		**1,807**	-
Reduction in tax rate (2014: 23% to 20%)		**-**	26,158
	15	**(24,037)**	15,432
Total income tax expense	*15*	**(24,129)**	14,884

* see note 15 on related discussions with HMRC.

Tax recognised in other comprehensive income
For the year ended 31 March

	Year to 31 March 2015			Year to 31 March 2014		
	Before tax £000	**Tax (expense) / benefit £000**	**Net of tax £000**	Before tax £000	Tax (expense) / benefit £000	Net of tax £000
Defined benefit plan actuarial gains/(losses)	**(13,851)**	**2,770**	**(11,081)**	10,015	(2,003)	8,012
	(13,851)	**2,770**	**(11,081)**	10,015	(2,003)	8,012

10 Income tax expense (continued)

Reconciliation of effective tax rate

	Year to 31 March 2015 %	Year to 31 March 2015 £000	Year to 31 March 2014 %	Year to 31 March 2014 £000
Profit for the year		**107,343**		153,341
Total income tax expense / (credit)		**24,129**		(14,884)
Profit before income tax		**131,472**		138,457
Income tax using the Company's domestic tax rate	**21.0**	**27,609**	23.0	31,845
Reduction in tax rate	**(1.0)**	**(1,322)**	(19.0)	(25,858)
Non-deductible expenses	**(0.2)**	**(245)**	0.4	520
Adjustment to prior years	**(1.4)**	**(1,913)**	(15.0)	(21,391)
	18.4	**24,129**	(10.6)	(14,884)

Factors affecting future tax charge
In the Finance Act 2013 provision was made that the corporation tax rate applicable for the financial year beginning 1 April 2014 would be 21%, falling to 20% for the financial years beginning 1 April 2015 onwards. The deferred tax for 2014/15 has been calculated at 20%.

11 Property, plant and equipment

	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**
Cost or deemed cost						
Balance at 1 April 2013	71,719	1,416,070	904,004	12,004	135,126	**2,538,923**
Reclassifications	103	(12,057)	11,954	-	-	-
Additions	-	2,623	-	-	162,598	**165,221**
Customer contributions	-	59,471	95	-	-	**59,566**
Disposals	(1)	(1,225)	(1,341)	(419)	-	**(2,986)**
Transfers	1,067	52,404	86,080	2,785	(142,336)	**-**
Reclassification to investment properties	(69)	-	-	-	-	**(69)**
Balance at 31 March 2014	**72,819**	**1,517,286**	**1,000,792**	**14,370**	**155,388**	**2,760,655**
Balance at 1 April 2014	72,819	1,517,286	1,000,792	14,370	155,388	**2,760,655**
Reclassifications	76	-	(76)	-	-	**-**
Additions	-	2,677	-	-	153,985	**156,662**
Customer contributions	4	46,502	1,900	-	-	**48,406**
Disposals	(860)	(305)	(132)	(585)	-	**(1,882)**
Transfers	1,715	68,177	119,344	1,309	(190,545)	**-**
Transfer to investment properties	(83)	-	-	-	-	**(83)**
Balance at 31 March 2015	**73,671**	**1,634,337**	**1,121,828**	**15,094**	**118,828**	**2,963,758**

* Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.

11 Property, plant and equipment (continued)

	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**
Depreciation and impairment losses						
Balance at 1 April 2013	(1,798)	(65,964)	(141,959)	(7,720)	-	**(217,441)**
Depreciation for the year	(1,970)	(14,629)	(44,037)	(1,426)	-	**(62,062)**
Disposals	-	1,225	1,341	416	-	**2,982**
Balance at 31 March 2014	**(3,768)**	**(79,368)**	**(184,655)**	**(8,730)**	**-**	**(276,521)**
Balance at 1 April 2014	(3,768)	(79,368)	(184,655)	(8,730)	**-**	**(276,521)**
Reclassifications	-	574	(574)	-		**-**
Depreciation for the year	(1,029)	(14,549)	(43,316)	(1,681)	-	**(60,575)**
Disposals	858	305	133	577	-	**1,873**
Balance at 31 March 2015	**(3,939)**	**(93,038)**	**(228,412)**	**(9,834)**	**-**	**(335,223)**
Carrying amounts						
At 31 March 2014	69,051	1,437,918	816,137	5,640	155,388	**2,484,134**
At 31 March 2015	**69,732**	**1,541,299**	**893,416**	**5,260**	**118,828**	**2,628,535**

* Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.

All surplus land and buildings have been transferred to investment properties and non-current assets held for sale (see note 12).

11 Property, plant and equipment (continued)

Borrowing costs capitalisation
Included in the total net book value of property, plant and machinery is £3,886k (2014: £3,911k) of borrowing costs capitalised during the period using a capitalisation rate of 4.45% (2014: 4.54%).

Leased assets

	At 31 March 2015 £000	At 31 March 2014 £000
The net book value of land and buildings comprises:		
Freehold	**68,666**	67,982
Leasehold - long and short term	**1,066**	1,069
Total	**69,732**	69,051

	At 31 March 2015 £000	At 31 March 2014 £000
Land within this total is not depreciated and is shown as follows:		
Freehold	**17,851**	17,716

PPP assets
The cost and net book value of PPP assets included in property, plant and equipment are disclosed in note 30.

Commitments under operating leases are shown in note 26.

12 Investment properties

	Total £000
Cost or deemed cost	
Balance at 1 April 2013	24,736
Reclassification from non-current assets held for sale	880
Disposals	(1,000)
Reclassification to non-current assets held for sale	(3,960)
Balance at 31 March 2014	**20,656**
Balance at 1 April 2014	20,656
Reclassification from non-current assets held for sale	69
Disposals	(206)
Transfers from property, plant & equipment	91
Transfers to property, plant & equipment	(8)
Transfers to non-current assets held for sale	(1,088)
Balance at 31 March 2015	**19,514**
Accumulated depreciation and impairment losses	
Balance at 1 April 2013	(16,754)
Reclassification from non-current assets held for sale	(272)
Reclassification to non-current assets held for sale	3,090
Disposals	907
Depreciation for the year	(23)
Impairment loss	-
Balance at 31 March 2014	**(13,052)**
Balance at 1 April 2014	(13,052)
Disposals	195
Impairment loss	(61)
Reclassification to non-current assets held for sale	324
Depreciation for the year	(109)
Balance at 31 March 2015	**(12,703)**
Carrying amounts	
At 31 March 2014	7,604
At 31 March 2015	**6,811**

Impairment loss

During the year ended 31 March 2015, the Company recognised an impairment loss of £61k (2014: £nil) relating to one surplus property asset. The impairment arose following a professional valuation of six different sites which are deemed to be surplus but do not meet the criteria of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. It was found that, due to movements in the property market, the carrying amount for one site was greater than the fair value. As a result, the land and buildings asset was impaired so that the carrying amount represents amortised cost.

13 Intangible assets

	Computer programs and software £000	Assets in the course of construction £000	**Total** **£000**
Cost			
Balance at 1 April 2013	45,453	11,360	**56,813**
Acquisitions	-	8,319	**8,319**
Transfers	10,400	(10,400)	**-**
Disposals	(3,733)	-	**(3,733)**
Balance at 31 March 2014	52,120	9,279	**61,399**
Balance at 1 April 2014	52,120	9,279	**61,399**
Acquisitions	-	6,766	**6,766**
Transfers	11,445	(11,445)	**-**
Balance at 31 March 2015	63,565	4,600	**68,165**
Amortisation and impairment losses			
Balance at 1 April 2013	(21,933)	**-**	**(21,933)**
Amortisation for the year	(5,612)	-	**(5,612)**
Disposals	3,733	-	**3,733**
Balance at 31 March 2014	(23,812)	-	**(23,812)**
Balance at 1 April 2014	(23,812)	-	**(23,812)**
Amortisation for the year	(7,086)	-	**(7,086)**
Balance at 31 March 2015	(30,898)	-	**(30,898)**
Carrying amounts			
At 31 March 2014	28,308	9,279	37,587
At 31 March 2015	**32,667**	**4,600**	**37,267**

Assets in the course of construction (AICC)
No borrowing costs were capitalised and included in the carrying value of AICC during the year.

£297k (2014: £368k) of research and development expenditure was recognised as an expense during the period.

The following intangible assets are deemed to be material to the Company's financial statements:

Description	**Carrying amount**	**Remaining amortisation period (years)**
MC2 implementation (mobile work management)	£ 2.6m	Under development*
CBC implementation (customer billing)	£ 1.5m	Under development*
Customer billing	£ 0.7m	1
NIAMP 3	£ 0.6m	2
Costing solution development	£ 1.1m	6
Asset Data Acquisition and Improvement	£ 3.2m	6
NIAMP 4	£ 0.9m	6

* Assets under development are not amortised.

13 Intangible assets (continued)

The contractual commitments for the acquisition of intangible assets as at 31 March 2015 are £3,883k (2014: £9,392k).

14 Other investments

	At 31 March 2015 £000	At 31 March 2014 £000
Non-current investments		
15,278 ordinary 'A' shares (re-valued at 31 March 2015 at market value £2.48 per share)	**38**	13
	38	13

The shares relate to an investment in WRc PLC. WRc carries out research in the water, waste and environment sectors. The market value at 31 March 2015 was £2.48 per ordinary share (2014: £0.83). The fair value adjustment of £25k has been charged to Other Comprehensive Income and has been credited to an Available for Sale reserve.

15 Deferred tax assets and liabilities

The following are the deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting periods:

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	At 31 March 2015	At 31 March 2014	**At 31 March 2015**	At 31 March 2014	**At 31 March 2015**	At 31 March 2014
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	**-**	-	**174,140**	161,016	**174,140**	161,016
Transfers of assets from customers*	**-**	-	**60,123**	51,009	**60,123**	51,009
Intangible assets	**-**	-	**1,114**	1,033	**1,114**	1,033
Employee benefits	**(2,326)**	-	**-**	696	**(2,326)**	696
Provisions	**(272)**	(175)	**-**	-	**(272)**	(175)
Tax losses carried forward	**(37,123)**	(39,190)	**-**	-	**(37,123)**	(39,190)
Net tax (assets) / liabilities	**(39,721)**	(39,365)	**235,377**	213,754	**195,656**	174,389

Movement in deferred tax balance during the year

	Balance at 31 March 2014	Recognised in profit	Recognised in other comprehensive income	**Balance at 31 March 2015**
	£000	£000	£000	**£000**
Property, plant and equipment	161,016	13,124	-	**174,140**
Transfers of assets from customers*	51,009	9,114	-	**60,123**
Intangible assets	1,033	81	-	**1,114**
Employee benefits	696	(252)	(2,770)	**(2,326)**
Provisions	(175)	(97)	-	**(272)**
Tax losses carried forward	(39,190)	2,067	-	**(37,123)**
	174,389	24,037	(2,770)	**195,656**

The impact on the deferred tax liability arising from future changes in the underlying tax rate is disclosed in note 10.
* Transfers of assets from customers form part of property, plant and equipment in the SOFP.

15 Deferred tax assets and liabilities (continued)

The on-going discussions between HMRC and the UK Water Industry on the most appropriate treatment for a number of areas of expenditure for tax purposes were resolved in October 2013. During 2014/15, NI Water has submitted and formally agreed revised capital allowances with HMRC, in line with Industry guidelines, in respect of 2007/08 to 2012/13. The deferred tax liability has been calculated based on the resubmitted tax computations. The Directors are content that the level of deferred tax provisioning shown in the accounts is appropriate.

16 Inventories

	At 31 March 2015 £000	At 31 March 2014 £000
Raw materials and consumables	**2,276**	2,029
Work in progress	**-**	-
	2,276	2,029

The estimated replacement cost of the stocks included above is not considered to be significantly different to the carrying value.

During the year raw materials, consumables and work in progress issued from stock and recognised within operating costs amounted to £351k (2014: £400k). In the year ending 31 March 2015 the write-down of inventories to net realisable value amounted to £60k (2014: £60k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2014: £60k). The reversal of write-downs amounted to £nil (2014: £nil). The write-downs are included in operating expenses.

17 Trade and other receivables

	At 31 March 2015 £000	At 31 March 2014 £000
Trade and other receivables from related parties (see note 29)	**1,554**	1,496
Trade receivables	**11,335**	10,995
Other receivables	**10,199**	6,702
	23,088	19,193
Current	**23,088**	19,193

At 31 March 2015 other receivables include VAT receivable of £6,200k (2014: £4,794k).

18 Cash and cash equivalents

	At 31 March 2015 £000	At 31 March 2014 £000
Bank balances	**929**	2,100
Call deposits	**20**	600
Cash and cash equivalents	**949**	2,700

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in note 25.

19 Capital and reserves

Share capital

	Ordinary shares	
	At 31 March 2015 £000	At 31 March 2014 £000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000

Ordinary shares

At 31 March 2015 the authorised share capital comprised 500 million ordinary shares (2014: 500m) with a par value of £1 each.

All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends as declared from time-to-time and is entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

19 Capital and reserves (continued)

Reserves

	At 31 March 2015			At 31 March 2014		
	Statutory distributable reserve £000	**Retained earnings £000**	**Available for sale reserve £000**	Statutory distributable reserve £000	Retained earnings £000	Available for sale reserve £000
At beginning of year	**171,690**	**449,031**	**(78)**	171,690	316,724	(53)
Profit for the year	**-**	**107,343**	**-**	-	153,341	-
Actuarial (losses)/gains recognised in the pension scheme	**-**	**(13,851)**	**-**	-	10,015	-
Deferred tax arising on losses / (gains) in the pension scheme	**-**	**2,770**	**-**	-	(2,003)	-
Shares not held for trading – revaluation losses	**-**	**-**	**25**	-	-	(25)
Transfer to available for sale reserve	**-**	**-**	**-**	-	-	-
Dividends on shares classified in Shareholder's funds	**-**	**(23,543)**	**-**	-	(29,046)	-
	171,690	**521,750**	**(53)**	171,690	449,031	(78)

Statutory distributable reserve

The statutory distributable reserve was established under enabling legislation.

19 Capital and reserves (continued)

Dividends
The following dividends were declared and paid by the Company.

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
4.71 pence per allotted ordinary share (2014: 5.81 pence)	**23,543**	29,046

The dividends recorded in each financial year represent the final dividend of the preceding financial year.

20 Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and liquidity risk, see note 25.

	At 31 March 2015 £000	At 31 March 2014 £000
Non-current liabilities		
Capital loan notes	**947,560**	911,560
Finance lease liabilities	**212,680**	216,100
	1,160,240	1,127,660
Current liabilities		
Current portion of finance lease liabilities	**3,420**	2,806
	3,420	2,806

Terms and debt repayment schedule
Terms and conditions of outstanding loans were as follows:

			At 31 March 2015		At 31 March 2014	
	Nominal interest rate	**Year of maturity**	**Face value £000**	**Carrying amount £000**	Face value £000	Carrying amount £000
Capital loan notes	5.25%	2027	**627,560**	**627,560**	627,560	627,560
Capital loan notes	Gilt + 0.85%	2027	**320,000**	**320,000**	284,000	284,000
PPP finance lease liabilities – Alpha	5.81%	2031	**94,388**	**94,388**	96,060	96,060
PPP finance lease liabilities – Omega	3.67%	2032	**117,848**	**117,848**	118,840	118,840
PPP finance lease liabilities – Kinnegar	3.99%	2024	**3,864**	**3,864**	4,006	4,006
			1,163,660	**1,163,660**	1,130,466	1,130,466

20 Loans and borrowings (continued)

The capital loan notes (denominated in GBP) have been issued under the instrument constituting £1,280,200k Fixed Coupon Unsecured loan notes 2027. During the year to 31 March 2015, £36m (2014: £29m) of loan notes were issued under this instrument. Capital loan notes are issued to DRD and are repayable in full in 2027. All loan notes in issue before 31 March 2010 carry a fixed rate of interest of 5.25%. Any loan notes issued after 31 March 2010 carry fixed interest rates of 0.85% above the reference gilt rate as published by the UK HM Government Debt Management Office on the day of issue of the loan note. The gilt rates applying to loan drawdowns subsequent to 31 March 2010 range from 1.76% to 4.42%.

Finance lease liabilities
Finance lease liabilities are payable as follows:

	At 31 March 2015			At 31 March 2014		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments
	£000	**£000**	**£000**	£000	£000	£000
Less than one year	**23,520**	**20,100**	**3,420**	23,181	20,375	2,806
Between one and five years	**97,501**	**76,128**	**21,373**	96,109	78,013	18,096
More than 5 years	**320,848**	**129,541**	**191,307**	345,760	147,756	198,004
	441,869	**225,769**	**216,100**	465,050	246,144	218,906

Finance lease liabilities relate to PPP contracts outlined in note 30.

21 Employee benefits

Defined benefit pension scheme
The Company operates a defined benefit pension scheme, the Northern Ireland Water Limited Pension Scheme, which is open to all employees. Members had the option of transferring their pensionable service from the Principal Civil Service Pension Scheme (Northern Ireland) (PCSPS (NI)) and a bulk transfer was paid in respect of liabilities transferred in August 2010.

The Scheme has a number of different benefit structures applying to different categories of members. All but one of these are closed to new entrants. The Scheme has undergone a number of changes as at 1 April 2015, with the benefits for service after that date being very broadly in line with those being provided by the PCSPS (NI). In particular, for the majority of members, benefits for service after 1 April 2015 are based on a career average structure, with benefits for service before that date largely being provided on a final salary basis. Some members, dependant on their age, are ‘protected’ from most of the changes and their benefits after 1 April 2015 will continue to accrue on a final salary basis. For all members employee contributions are being gradually increased, from an average level of a little over 2% of pensionable pay at present, and are expected to average about 4.5% of pensionable pay from 2017/18 onwards.

Benefits for service up to 31 March 2015 are unchanged, and as a result there is no direct change to NI Water’s Defined Benefit Obligation under IAS19. There is, however, one indirect change which has arisen, which is that following the reforms those members who will become entitled to career average benefits for future service are expected to retire later than has been assumed to date.

21 Employee benefits (continued)

The effect of this change in assumed retirement patterns is to increase the Defined Benefit Obligation by £478,000, and this amount has been included within Past Service Costs in the Statement of Comprehensive Income.

Significant assumptions used in this disclosure:

Weighted-average assumptions to determine benefit obligation

	Conditions at 31 March 2015	Conditions at 31 March 2014
Rate of increase in salaries	**2% for 5 years, 3% thereafter**	4.30%
Rate of increase in pensions in payment and deferred pensions	**3.00%**	3.30%
Discount rate	**3.40%**	4.60%
Inflation assumption - RPI	**3.00%**	3.30%
Inflation assumption - CPI	**2.00%**	2.30%

Composition of the Scheme
The scheme is open to new entrants and therefore the service cost as a percentage of pensionable salaries is expected to remain broadly steady over time (subject to changes in market conditions). Accrued liabilities are based on calculations carried out by a qualified independent actuary. A full calculation of the liabilities was carried out at the date of the Scheme's latest actuarial valuation (31 March 2014) and has been updated to 31 March 2015 for IAS19 purposes on an approximate basis.

Assumed life expectancies on retirement at age 60

	31 March 2015			
	Non-industrial		**Industrial**	
	Male	**Female**	**Male**	**Female**
Retiring today (member aged 60)	**27.3**	**29.5**	**25.5**	**27.7**
Retiring in 20 years (member age 40 today)	**30.3**	**32.5**	**28.5**	**30.6**

	31 March 2014			
	Non-industrial		Industrial	
	Male	Female	Male	Female
Retiring today (member aged 60)	27.7	30.3	26.0	28.5
Retiring in 20 years (member age 40 today)	30.2	32.8	28.4	31.0

21 Employee benefits (continued)

The weighted-average target asset allocations were as follows:

	Total scheme assets at 31 March 2015	Total scheme assets at 31 March 2014
Asset category		
a. Equity instruments	**27.5%**	27.5%
b. Debt instruments		
(i) Corporate bonds	**15.0%**	15.0%
(ii) Gilts	**25.0%**	25.0%
c. Property	**10.0%**	10.0%
d. Other	**22.5%**	22.5%
Total	**100.0%**	100.0%

Fair value of plan assets

	£000	£000
a. Equities	**59,871**	49,362
b. Debt instruments		
(i) Corporate bonds	**26,447**	31,640
(ii) Gilts	**54,588**	45,455
c. Property	**20,165**	8,413
d. Other	**43,042**	36,123
Total market value of assets	**204,113**	170,993

The Scheme's overall allocation to investment in equities is approximately 9% UK and 21% in overseas equities. The investments shown as 'Other' includes Global Tactical Asset Allocation and Diversified Growth Fund. These investments are intended to reduce the reliance on equity markets, diversify the sources of risk to which the fund is exposed and provide exposure to a wide variety of equity, bond, currency, commodity and other alternatives markets.

Defined benefit obligation by participant status

	Total at 31 March 2015 £000	Total at 31 March 2014 £000
Actives	**149,888**	111,543
Vested deferreds	**13,974**	4,775
Retirees	**51,881**	51,195
Total defined benefit obligation	**215,743**	167,513

21 Employee benefits (continued)

Change in the fair value of plan assets

	Total year to 31 March 2015 £000	Total year to 31 March 2014 £000
Fair value of plan assets at end of prior year	**170,993**	155,788
Movement in year		
Interest income	**8,018**	7,100
Contributions by plan participants	**881**	861
Contributions by employer	**10,536**	11,424
Actuarial gain /(loss)	**17,328**	(1,260)
Benefits paid	**(2,901)**	(2,799)
Administration expenses paid from plan assets	**(520)**	(547)
Insurance premiums for risk benefits	**(222)**	(101)
Settlement in relation to PCSPS bulk transfer	**-**	527
	204,113	170,993

Analysis of the present value of the defined benefit obligations

	Total year to 31 March 2015 £000	Total year to 31 March 2014 £000
At the beginning of the year	**167,513**	161,142
Movement in year		
Current service cost	**10,190**	11,200
Interest expense	**7,863**	7,400
Past service costs	**1,018**	457
Remeasurements:		
a. Effect of changes in demographic assumptions	**(1,316)**	-
b. Effect of changes in financial assumptions	**28,429**	(11,275)
c. Effect of experience adjustments	**4,066**	-
Contributions by plan participants	**881**	861
Benefits paid	**(2,901)**	(2,799)
Settlement in relation to PCSPS bulk transfer	**-**	527
	215,743	167,513

21 Employee benefits (continued)

Amounts recognised in the statement of financial position

	Total year to 31 March 2015	Total year to 31 March 2014
	£000	£000
Defined benefit obligation	**(215,743)**	(167,513)
Fair value of plan assets	**204,113**	170,993
(Deficit)/Surplus in the scheme – pension asset/(liability)	**(11,630)**	3,480
Related deferred tax asset/(liability)	**2,326**	(696)
Net pension (liability)/asset	**(9,304)**	2,784

Components of defined benefit cost

	Total year to 31 March 2015	Total year to 31 March 2014
	£000	£000
Service cost		
Current service costs (operating costs - staff costs)	**10,190**	11,200
Past service costs (operating costs - staff costs)	**1,018**	457
Total service cost	**11,208**	11,657
Net interest (income)/cost:		
Interest expense	**7,863**	7,400
Interest income	**(8,018)**	(7,100)
Net interest (income)/cost	**(155)**	300
Administration expenses and taxes	**742**	648
Defined benefit cost included in profit	**11,795**	12,605
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	**(1,316)**	-
Effect of changes in financial assumptions	**28,429**	(11,275)
Effect of experience adjustments	**4,066**	-
Return on plan assets excluding interest income	**(17,328)**	1,260
Total remeasurements included in Other Comprehensive Income	**13,851**	(10,015)
Total defined benefit cost recognised in SOCI	**25,646**	2,590

21 Employee benefits (continued)

Net defined benefit liability/(asset) reconciliation

	Total year to 31 March 2015	Total year to 31 March 2014
	£000	£000
Net defined benefit (asset)/liability	**(3,480)**	5,354
Defined benefit cost included in profit	**11,795**	12,605
Total measurements included in OCI	**13,851**	(10,015)
Cashflows – employer contributions	**(10,536)**	(11,424)
Net defined benefit liability/(asset)	**11,630**	(3,480)

	Total year to 31 March 2015	Total year to 31 March 2014
	£000	£000
Actual return on plan assets	**25,346**	5,840

Sensitivity of key assumptions
The sensitivities to assumptions shown below are broadly symmetrical, i.e., an increase or decrease in the assumption will result in a similar movement in either direction.

Impact of:

	Change in liability 2014/15	**Change in liability 2014/15**	Change in liability 2013/14	Change in liability 2013/14
	%	**£000**	%	£000
+ or - 0.25% in discount rate	**6.2**	**13,300**	5.5	9,200
+ or - 0.25% in rate of inflation	**5.1**	**11,000**	5.2	8,700
+ or - 0.25% in salary inflation	**1.3**	**2,700**	2.0	3,300
Increase in life expectancy of 1 year	**2.6**	**5,600**	2.2	3,700

Expected cash flows for the following year

	£000
Expected employer contributions	**10,182**
Expected total benefit payments:	
Year 1	**2,986**
Year 2	**3,074**
Year 3	**3,164**
Year 4	**3,256**
Year 5	**3,351**
Then for next 5 years	**18,288**

22 Deferred income

Deferred income classified as current consists of deferred revenue associated with the annual unmeasured water bill cycle and the portion of deferred government grants that will be recognised as income in the next year. Deferred income classified as non-current consists of the non-current portion of deferred government grants.

	At 31 March 2015 £000	At 31 March 2014 £000
Government grants	**6,978**	6,982
Customer billing in advance	**2,267**	2,266
	9,245	9,248
Non-current	**6,607**	6,635
Current	**2,638**	2,613
	9,245	9,248

The Company credited £370k to capital grants during the year. The balance of grants noted above relates to awards made previously to DRD Water Service. All grants have been recognised as deferred income, and are being amortised over the useful economic life of the related asset.

23 Provisions

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Balance at 1 April 2014	2,159	497	6,553	106	1,675	**10,990**
New Provisions	1,030	120	-	-	97	**1,247**
Utilised	(623)	(135)	(4,150)	-	-	**(4,908)**
Amounts released unused	(801)	80	-	-	-	**(721)**
Balance at 31 March 2015	**1,765**	**562**	**2,403**	**106**	**1,772**	**6,608**
Non-current	1,059	422	-	-	-	**1,481**
Current	706	140	2,403	106	1,772	**5,127**
	1,765	**562**	**2,403**	**106**	**1,772**	**6,608**

23 Provisions (continued)

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Balance at 1 April 2013	2,020	395	7,053	120	680	**10,268**
New Provisions	2,172	295	-	-	1,000	**3,467**
Utilised	(779)	(216)	-	(14)	-	**(1,009)**
Transferred to accruals	-	-	(500)	-	-	**(500)**
Amounts released unused	(1,254)	23	-	-	(5)	**(1,236)**
Balance at 31 March 2014	**2,159**	**497**	**6,553**	**106**	**1,675**	**10,990**
Non-current	1,296	373	2,403	-	675	**4,747**
Current	863	124	4,150	106	1,000	**6,243**
	2,159	**497**	**6,553**	**106**	**1,675**	**10,990**

Public and employer liability claims
The public liability and employer liability claims at 31 March 2015 relate to unsettled claims. The public liability claims principally relate to previous operational incidents and contractors' business interruption incidents in prior years. The provisions represent potential liabilities on these claims above the amount of insurance cover in place. Professional advice has been sought on the potential liability for individual claims. Claims submitted against the Company are in excess of the provisions made as management have made best estimates of the required provisions based on past experience of similar claims. Until claims are progressed through the formal claims process some degree of uncertainty will remain as to the amount and timing of any final settlement figure. The employer liability claims principally relate to incidents incurred by employees on Company premises.

A related contingent liability has also been disclosed at note 28. The contingent liability for public and employer liability of £0.69m represents an amount relating to the value of claims received above the provision included in the financial statements.

Environmental liability
The environmental provision was calculated after carrying out an Environmental and Liability Assessment at various services sites. This provision relates to a contract which is in place to carry out the required remedial work. The amount provided represents the best estimate of the Company’s liability after discussions and agreement with the environmental regulator (NIEA) on the work to be carried out.

Early retirement provisions
The early retirement provision relates to those retirement benefits accruing to those members who took early retirement prior to 1 April 2007. The provision represents the total of retirement benefits due to those members from 31 March 2015 to their official date of retirement. These payments are made on a monthly basis to DFP and the amounts and timing of these should not be subject to any uncertainty.

Other provisions
Other provisions relates to management’s best estimates of the value of unused staff holiday entitlement at the year end of £772k (2014: £675k) and of third party costs in relation to the resolution of contractual disputes of £1,000k (2014: £1,000k).

23 Provisions (continued)

The expected timing of any resulting outflows of economic benefits is as follows:

31 March 2015

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	706	140	2,403	106	1,772	**5,127**
In the second to fifth years	1,059	422	-	-	-	**1,481**
Over five years	-	-	-	-	-	**-**
	1,765	**562**	**2,403**	**106**	**1,772**	**6,608**

31 March 2014

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	863	124	4,150	106	1,000	**6,243**
In the second to fifth years	1,296	373	2,403	-	675	**4,747**
Over five years	-	-	-	-	-	**-**
	2,159	**497**	**6,553**	**106**	**1,675**	**10,990**

24 Trade and other payables

	At 31 March 2015 £000	At 31 March 2014 £000
Payments received on account	**1,279**	1,192
Trade payables	**21,172**	6,732
Taxation and social security	**1,022**	1,034
Accruals – operating expenditure	**42,996**	45,855
Accruals – capital expenditure	**52,101**	57,410
Accruals to related parties (see note 29)	**850**	775
	119,420	112,998

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

24 Trade and other payables (continued)

Other payables

	At 31 March 2015 £000	At 31 March 2014 £000
Non-current	**1,273**	914
Current	**9,843**	8,387
	11,116	9,301

Non-current other payables relates to retentions from capital projects all of which will fall due within two to five years.

25 Financial instruments

Exposure to currency risk
The Company is not exposed to any significant currency risks.

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Loans and receivables	*Note*	At 31 March 2015 £000	At 31 March 2014 £000
Trade and other receivables	*17*	**12,889**	12,491
Unbilled income included within prepayments		**9,738**	9,598
Cash and cash equivalents	*18*	**949**	2,700
		23,576	24,789

The total exposure to credit risk at the reporting date is with UK counterparties, and these are GBP denominated.

All financial assets which are subject to credit risk are measured at amortised cost.

The maximum exposure to credit risk for trade and other receivables and unbilled income at the reporting date by type of counterparty was:

	Carrying amount	
	At 31 March 2015 £000	At 31 March 2014 £000
End-user customers	**22,631**	21,853

The maximum exposure to cash and cash equivalents (note 18) is £949k (2014: £2,700k). The majority of this balance relates to monies held at the Company's principal banker, Danske Bank.

25 Financial instruments (continued)

Impairment losses
The aging and impairment losses of loans and receivables at the reporting date were:

	Gross	**Impairment**	Gross	Impairment
	At 31 March 2015		At 31 March 2014	
	£000	**£000**	£000	£000
Not past due	**18,386**	**145**	18,251	181
Past due 0-30 days	**1,449**	**43**	1,632	47
Past due 31-60 days	**1,054**	**27**	577	28
Past due 61-90 days	**353**	**16**	335	15
Past due 91-120 days	**595**	**134**	573	133
Past due 121-150 days	**258**	**102**	371	152
Past due 151-365 days	**1,116**	**774**	1,176	827
Past due 1-2 years	**1,624**	**1,309**	1,324	1,178
Past due 2+ years *	**2,484**	**2,138**	2,310	2,135
	27,319	**4,688**	26,549	4,696

* includes contractual debtors where there are fewer concerns over recoverability and therefore no provision for impairment.

The above figures include amounts relating to accrued income included in the SOFP. The Company holds no collateral in respect of these financial assets. The aging of trade receivables is based on detailed trade receivables listings and management's best estimate of the debt profile. There are no individual customers who account for more than 5% of total net trade and other receivable balances.

The aging of loans and receivables at the reporting date can also be shown as follows:

	At 31 March 2015 £000	At 31 March 2014 £000
Not past due	**17,847**	17,717
Past due 0-30 days	**1,368**	1,719
Past due 31-60 days	**1,345**	559
Past due 61-90 days	**383**	298
Past due 91-120 days	**555**	475
Past due 121-150 days	**243**	365
Past due 151-365 days	**1,157**	1,157
Past due 1-2 years	**1,415**	1,078
Past due 2+ years	**3,006**	3,181
	27,319	26,549

25 Financial instruments (continued)

This analysis takes an alternative view of aging with most customer balances allocated to the aging category of the oldest invoice outstanding on that account. Certain customer balances have not been restated in this way as it has been assumed that there is no additional risk of non-collection on these accounts due to the existence of the older unpaid invoices on the account. These accounts include customers in the public sector, key accounts, customers on direct debit or repayment plans and accounts with invoices under query.

The movement in the allowance for impairment in respect of receivables during the year was as follows:

	At 31 March 2015 £000	At 31 March 2014 £000
Balance at 1 April	**4,696**	4,992
New provisions	**2,305**	2,737
Debt provision utilised	**(845)**	(1,020)
Provision released unused	**(1,468)**	(2,013)
Balance at 31 March	**4,688**	4,696

The Company establishes an allowance for impairment of water, sewerage and trade effluent customer debt by applying a range of expected recovery rates to an aged debt profile. The expected recovery rates are based on the risk of default across different industries (derived from historical collection data and management judgement) with categorisation into High, Medium or Low risk. A recovery rate profile across the aging categories is set for each of the three risk categories which reflects the relative risks of collection. All High and Medium risk debt is 100% provided for if over one year old, whereas the low risk category is 100% provided for when over three years old. Separate allowances are made for debt arising from test meters, those customers on repayment plans and for debt considered uncollectible. The impairment percentages are reviewed for accuracy on an annual basis. The Company believes that the unimpaired amounts that are past due are still collectible and no impairment allowance is necessary in respect of trade receivables not past due.

The Company also has debtors associated with miscellaneous income. The Company establishes an allowance for impairment for this debt by applying a range of expected recovery rates to an aged debt profile based on historical collection data for this type of customer. A provision of 100% has been applied for all miscellaneous debt over one year.

25 Financial instruments (continued)

Liquidity risk
The following are the contractual maturities of financial liabilities, including estimated interest payments.

31 March 2015

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6 -12 months £000	1 - 2 years £000	2 - 5 years £000	More than 5 years £000
Capital loan notes	**947,560**	(1,498,102)	(22,986)	(22,986)	(45,847)	(137,667)	(1,268,616)
Finance lease liabilities	**216,100**	(441,869)	(11,760)	(11,760)	(23,881)	(73,620)	(320,848)
Trade and other payables	**130,536**	(130,536)	(129,263)	-	-	(1,273)	-
	1,294,196	(2,070,507)	(164,009)	(34,746)	(69,728)	(212,560)	(1,589,464)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 March 2014

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6 -12 months £000	1 - 2 years £000	2 - 5 years £000	More than 5 years £000
Capital loan notes	**911,560**	(1,492,408)	(22,387)	(22,265)	(44,775)	(133,957)	(1,269,024)
Finance lease liabilities	**218,906**	(465,050)	(11,590)	(11,590)	(23,520)	(72,589)	(345,761)
Trade and other payables	**122,299**	(122,299)	(121,385)	-	-	(914)	-
	1,252,765	(2,079,757)	(155,362)	(33,855)	(68,295)	(207,460)	(1,614,785)

Details of the timing of the cash outflows in respect of provisions are set out in note 23.

Profile
At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Carrying amount	
	At 31 March 2015 £000	At 31 March 2014 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,163,660)**	(1,130,466)
	(1,163,660)	(1,130,466)
Variable rate instruments		
Financial assets	**949**	2,700
Financial liabilities	**-**	-
	949	2,700

25 Financial instruments (continued)

Fair value sensitivity analysis for fixed rate instruments
The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss or cash flow.

Fair values versus carrying amounts
The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are set out below.

	Note	Available for sale £000	Loans and receivables £000	Liabilities at amortised cost £000	Total carrying amount £000
31 March 2015					
Financial assets not measured at fair value					
Cash and cash equivalents	*18*	-	949	-	949
Trade and other receivables	*17*	-	12,893	-	12,893
Unbilled income		-	9,738	-	9,738
Financial assets measured at fair value					
Investment securities:					
- Equity securities	*14*	38	-	-	38
		38	23,580	-	23,618
Financial liabilities not measured at fair value					
Finance lease liabilities	*20*	-	-	(216,100)	(216,100)
Trade payables	*24*	-	-	(119,420)	(119,420)
Other payables	*24*	-	-	(11,116)	(11,116)
Loans and borrowings	*20*	-	-	(947,560)	(947,560)
		-	-	(1,294,196)	(1,294,196)

	Note	Available for sale £000	Loans and receivables £000	Liabilities at amortised cost £000	Total carrying amount £000
31 March 2014					
Financial assets not measured at fair value					
Cash and cash equivalents	*18*	-	2,700	-	2,700
Trade and other receivables	*17*	-	12,255	-	12,255
Unbilled income		-	9,598	-	9,598
Financial assets measured at fair value					
Investment securities:					
- Equity securities	*14*	13	-	-	13
		13	24,553	-	24,566
Financial liabilities not measured at fair value					
Finance lease liabilities	*20*	-	-	(218,906)	(218,906)
Trade payables	*24*	-	-	(112,998)	(112,998)
Other payables	*24*	-	-	(9,301)	(9,301)
Loans and borrowings	*20*	-	-	(911,560)	(911,560)
		-	-	(1,252,765)	(1,252,765)

25 Financial instruments (continued)

The carrying amount of all financial assets and liabilities not measured at fair value, with the exception of loans, borrowings and finance lease liabilities, is considered to be a reasonable approximation of fair value. The fair value of loans and borrowings is £1,166m (2014: £1,006m). The fair value of finance lease liabilities cannot be estimated as there is no current observable interest rate specific to a PFI scheme of this exact nature and duration in Northern Ireland. Further details on the terms and year end balances can be found in note 20. The loans and borrowings are categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The following table shows the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used.

Type	**Valuation technique**	**Significant unobservable inputs**
Loans and borrowings*	Discounted cash flows	Not applicable

* Loans and borrowings include capital loan notes issued to the Company's sponsoring department, DRD.

26 Operating leases

Leases as lessee
Total future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	At 31 March 2015 £000	At 31 March 2014 £000
Less than one year	**214**	19
Between one and five years	**960**	58
More than 5 years	**221**	-
	1,395	77

The Company leases an office building (Capital House) and photocopiers under operating leases. The office leases typically run for a period of five to ten years.

During the year ended 31 March 2015 an amount of £101k was recognised as an expense in profit or loss in respect of operating leases (2014: £57k).

27 Capital commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	At 31 March 2015 £000	At 31 March 2014 £000
Contracted	**61,056**	88,584

In addition to the above, at the end of the financial year the Company had entered into commitments amounting to £764m (2014: £357m). These commitments relate to planned future capital spend. The contracted amount of £61m is in relation to actual spend contracted with suppliers to date.

28 Contingencies

The Company is disputing liability in some public and employer liability cases. The estimate of the financial effect is £0.7m (2014: £0.8m). It has been estimated that there is less than a 50% chance of these cases leading to a loss. If such a loss should arise there is no possibility of any reimbursement. In addition, the Company is disputing a number of claims from contractors amounting to £7.35m (2014: £7.35m) which the Directors consider there is less than a 50% likelihood of a loss.

A summary of contingent liabilities is set out below:

	At 31 March 2015 £000	At 31 March 2014 £000
Public and employer liability	**687**	826
Contractor Claims	**7,350**	7,350
	8,037	8,176

Debenture to DRD
DRD has entered into deeds of guarantee with the concessionaires of the Alpha and Omega PPP contracts to guarantee all future liabilities of the Company under these contracts. The Company has entered into an environmental indemnity with DRD and the Department of the Environment in respect of any future environmental liabilities arising for NI Water. The Company has registered a debenture to counter indemnify DRD in relation to these three guarantees. Under this debenture the Company pledges to DRD by way of first floating charge and as a continuing security for the payment and discharge of the secured liabilities all of the Company's rights to and title, and interest on property, assets rights and revenues. No provision has been made in the financial statements in respect of this guarantee as the conditions under which the liability would crystallise have not been breached.

The debenture granted to DRD is a deemed insurance contract and is accounted for in accordance with IAS 37.

Contingent assets
The Company receives performance bonds from customers in relation to requisition of water mains and sewerage services. The balance of cash bonds held at 31 March 2015 is £5.12m and this balance is included in accruals (see note 24). Bonds are only recognised as income if customers are in default of agreed conditions. The Company has also received a number of paper performance bonds issued by various financial institutions. These are not recognised in the financial statements. The value placed on paper bonds held at 31 March 2015 is £16.7m. These items are considered contingent assets as an inflow of economic benefits is considered to be remote.

29 Related parties

Parent and ultimate controlling party
The Company is a Government Company, wholly owned by its ultimate controlling party, DRD. The results of the Company will not be within the annual financial statements prepared by DRD, nor in the financial statements of any other entity. Inter-company receivable and payable balances with DRD and other government bodies will be supplied to DRD for the Whole of Government Accounts. The Company transacts with other Government Departments, Agencies, and NDPBs, in the normal course of business and in accordance with standard business terms.

29 Related parties (continued)

Related party disclosures with DRD are as follows:

	At 31 March 2015	At 31 March 2014
	£000	£000
Subsidy		
Revenue subsidy from DRD (credited to revenue)	**279,624**	277,345
Revenue relating to Road Drainage (credited to revenue)	**19,154**	20,049
Revenue subsidy from DRD relating to third party contributions (credited to revenue)	**16**	12
Other receivables - subsidy (included in other receivables - note 17)	**1,229**	1,259
Other sales to DRD (credited to revenue)	**1,785**	1,622
Trade receivables - other sales to DRD (included in Trade receivables - note 17)	**325**	237
Purchases		
Purchases from DRD (included in operating costs or capital expenditure)	**513**	957
Accruals - purchases from DRD (included in Accruals - note 24)	**464**	775
Loans and borrowings		
Loans from DRD during the year	**36,000**	29,000
Balance on loans from DRD at year end - note 20	**947,560**	911,560
Loan interest to DRD - note 9 *	**45,312**	41,406
Loan interest owed to DRD at year end	**386**	386
Dividends		
Dividend to Shareholder - note 19	**23,543**	29,046

* loan interest stated before capitalisation of £3,886k (2014: £3,911k) of interest.

No guarantees are given to or received from DRD in relation to the previous balances. There are no provisions for doubtful debts related to the amounts above and no expense recognised in the year in respect of bad and doubtful debts due from DRD.

Key management personnel's compensation
Details of the key management personnel's post-employment defined benefit plan and termination benefits are included in the Directors' remuneration report on pages 111 to 115. Key management personnel's compensation is disclosed in note 8a.

Key management personnel's and Directors' transactions
George Butler is an Executive Director of NI Water. He is also Chairman of NI Water Pension Trust Company and a Director of the UK Water Industry Research Company (UK WIR). During the year the Company purchased £99k (2014: £99k) of services from UK WIR.

30 Service concession agreements

The transfer of ownership of the assets and liabilities of Water Service from an agency of DRD to NI Water on 1 April 2007 included the transfer of a number of service concession arrangements with private sector companies (PPP Companies) in the form of Private Finance Initiative contracts for the supply of water and wastewater services.

30 Service concession agreements (continued)

The capital cost of each contract is included within 'property, plant and equipment' (see note 11) and as PPP creditor in 'loans and borrowings' (see note 20) in the SOFP. No changes in the arrangements occurred during the year. A description of the arrangements, their significant terms, and the nature and extent of rights and obligations are outlined below.

Description

Kinnegar
A contract with Coastal ClearWater Limited was signed on 30 April 1999 for the provision of sewage treatment which covered the upgrading of the Kinnegar Waste Treatment Works with a capital cost in the region of £11 million. The contract is for 25 years with an end date of 30 April 2024. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2015 is £12.01m and £6.6m respectively (2014: £12.01m, £6.94m). The amount included in PPP Creditors at 31 March 2015 is £3.86m (2014: £4.01m).

Alpha
A contract with Dalriada Water Limited was signed on 30 May 2006 for the provision of bulk drinking Water supplies. This has a capital cost in the region of £111 million. The service provision commenced roll-out from November 2008. The contract is for 25 years with an end date of 29 May 2031. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2015 is £116.17m and £93.92m respectively (2014: £115.59m, £96.86m). The amount included in PPP Creditors at 31 March 2015 is £94.39m (2014: £96.06m).

Omega
A contract with Glen Water Limited was signed on 6 March 2007 for the provision of sewage treatment and sludge disposal at five sites with a capital cost in the region of £132 million. The contract is for 25 years with an end date of 5 March 2032. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2015 is £140.68m and £115.16m respectively (2014: £140.49m, £119.42m). The amount included in PPP Creditors at 31 March 2015 is £117.85m (2014: £118.84m).

Significant terms
The key terms relate to the basis upon which the Company pays for the services provided by the PPP Companies. The levels of such payments are subject to performance, volume and quality targets being met, which lead to fluctuations in the amount payable. The Company also has the power to levy payment deductions where the level of service falls below pre-determined standards, primarily linked to the quality of the treated wastewater and drinking water.

The contracts are structured such that either party may seek to amend the basis upon which the service is provided, primarily where driven by a change in law but also by agreement to a change in the level of service or a refinancing change. This is subject to a formal variation procedure and is ultimately dependent upon the parties reaching agreement on the contractual changes required to give effect to the specific variation.

Nature and extent of rights and obligations
The Company's primary obligations are to deliver raw water and wastewater to the PPP companies and thereafter the Company pays for the treatment services provided, making the appropriate deduction where the PPP companies fail to meet the appropriate performance standards. The PPP companies provided the initial construction services through a sub-contract and also entered into sub-contracts for the operation and maintenance of these assets once satisfactorily commissioned. All such projects are in their operational phase. Sites are licensed or leased to the PPP companies through the contract.

30 Service concession agreements (continued)

Termination in full or in part (in some circumstances) during the contractual period can arise for a number of reasons including default (by either the PPP Company or the Company), force majeure, uninsurable events or voluntary termination by the Company. Each contract contains a formula from which termination compensation payable by the Company is derived.

Other than each party's unilateral right to propose an amendment to a contract, the most likely circumstance which would give rise to the re-negotiation of a contract is as a result of a change in law which requires the manner in which the treatment and / or disposal service is delivered to be changed, in order to ensure it meets the requirements of such legislative changes.

The contracts also stipulate a range of 'hand-back' conditions linked to the remaining life of certain assets.

31 Subsequent events

There were no subsequent events that need to be brought to the attention of the users of the financial statements.

Independent Auditors' Report to the Members of Northern Ireland Water Limited

We have audited the financial statements (''financial statements'') of Northern Ireland Water Limited for the year ended 31 March 2015 which comprise the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

2 Opinion on regularity

In our opinion, in all material respects, the expenditure (disbursed) and income (received) have been applied to the purposes intended by the Department for Regional Development as set out in their direction to the Company of 18 November 2010 and the financial transactions conform to the authorities which govern them.

3 Our conclusions on other matters on which we are required to report by the Companies Act 2006 are set out below

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

4 We have nothing to report in respect of matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

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

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

We have nothing to report in respect of the above responsibilities.

Independent Auditors' Report to the Members of Northern Ireland Water Limited (continued)

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 116, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2006. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Arthur O'Brien
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
17 – 25 College Square East
Belfast
BT1 6DH
25 June 2015

Regulatory Accounts

Donaghmore Wastewater Treatment Works, Co Tyrone.

Introduction

The Directors of NI Water are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of Northern Ireland Water Limited as a Water and Sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 and the Regulatory Accounting Guidelines.

Condition F6A of the Licence (Directors' certificate of going concern)

The Board confirms that to the best of its knowledge and belief:

(1) in the opinion of the Directors, Northern Ireland Water Limited ("the Appointee") will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil NI Water's obligations under the Appointment).

As noted in note 2(a) on page 190, a significant shortfall in Public Expenditure funding in 2015/16 and no clarity of funding for the period beyond 2015/16, meant the Board had no option but to reject the PC15 Final Determination in the circumstances. While the gap in Public Expenditure funding for 2015/16 had been bridged somewhat, DRD advised that work will be needed to assess changes to outputs required of NI Water because funding is not at the level required by the Utility Regulator. NI Water has been engaging positively with the Utility Regulator and DRD to consider appropriate 2015/16 outputs and the Company anticipates that an agreement will be reached. During the ongoing discussions, the Utility Regulator has not given any indications that it would consider rescinding the Licence in the future and all parties are working together to reach a satisfactory conclusion.

On the basis of the discussions the directors have formed a judgement at the time of approving the financial statements, that the company will be able to reach an agreement with the Utility Regulator and hence to apply adequate resources to continue in operational existence for the foreseeable future and as such these conditions do not cast a significant doubt on the Company's ability to continue as a going concern.

(2) in the opinion of the Directors the Appointee will, for at least the next 12 months, have available to it:

(i) management resources;

(ii) methods of planning and internal control which, except for any control weaknesses reported separately to the Utility Regulator, are sufficient to enable it to carry out Regulated Activities necessary to fulfil its obligations under the Appointment; and

(3) in the opinion of the Directors, no contracts were entered into with any Associated Company.

For and on behalf of the Board

Sara Venning
Chief Executive
24 June 2015

HISTORICAL COST FINANCIAL STATEMENTS

Profit and loss account

	Year to 31 March 2015			Year to 31 March 2014		
	Appointed business	**Non - Appointed business**	**Total**	Appointed business	Non - Appointed business	Total
	£000	**£000**	**£000**	£000	£000	£000
Turnover	**364,407**	**5,691**	**370,098**	361,313	5,236	366,549
Operating costs	**(204,925)**	**(3,619)**	**(208,544)**	(209,657)	(3,573)	(213,230)
Historical cost depreciation	**(47,523)**	**(16)**	**(47,539)**	(48,580)	(16)	(48,596)
Operating profit	**111,959**	**2,056**	**114,015**	103,076	1,647	104,723
Net interest payable	**(51,957)**	**-**	**(51,957)**	(48,580)	-	(48,580)
Profit on ordinary activities before taxation	**60,002**	**2,056**	**62,058**	54,496	1,647	56,143
Taxation on profit on ordinary activities:						
Corporation tax	**(17)**	**(75)**	**(92)**	-	(548)	(548)
Deferred tax	**(24,037)**	**-**	**(24,037)**	13,798	1,634	15,432
Profit on ordinary activities after taxation	**35,948**	**1,981**	**37,929**	68,294	2,733	71,027
Dividends	**(21,562)**	**(1,981)**	**(23,543)**	(21,391)	(7,655)	(29,046)
Retained profit/(loss) for the financial year	**14,386**	**-**	**14,386**	46,903	(4,922)	41,981

Balance sheet

	At 31 March 2015			At 31 March 2014		
	Appointed business £000	**Non - Appointed business £000**	**Total £000**	Appointed business £000	Non - Appointed business £000	Total £000
Fixed assets						
Tangible assets	**2,073,392**	**65**	**2,073,457**	1,994,848	81	1,994,929
Investments	**91**	**-**	**91**	91	-	91
	2,073,483	**65**	**2,073,548**	1,994,939	81	1,995,020
Current assets						
Stocks	**2,269**	**7**	**2,276**	2,021	8	2,029
Debtors	**30,759**	**469**	**31,228**	27,167	379	27,546
Infrastructure renewals prepayment	**-**	**-**	**-**	50	-	50
Cash at bank and in hand	**812**	**137**	**949**	2,237	463	2,700
	33,840	**613**	**34,453**	31,475	850	32,325
Creditors: amounts falling due within one year						
Payments received on account	**(3,546)**	**-**	**(3,546)**	(3,459)	-	(3,459)
Trade creditors	**(21,206)**	**(242)**	**(21,448)**	(6,656)	(76)	(6,732)
Taxation and social security	**(995)**	**-**	**(995)**	(1,492)	-	(1,492)
Other creditors	**(10,457)**	**-**	**(10,457)**	(8,458)	-	(8,458)
Accruals and deferred income	**(94,660)**	**(436)**	**(95,096)**	(102,667)	(855)	(103,522)
Deferred grants and contributions	**(885)**	**-**	**(885)**	(832)	-	(832)
PPP finance lease	**(1,888)**	**-**	**(1,888)**	(1,672)	-	(1,672)
Infrastructure renewals accrual	**(702)**	**-**	**(702)**	-	-	-
	(134,339)	**(678)**	**(135,017)**	(125,236)	(931)	(126,167)
Net current liabilities	**(100,499)**	**(65)**	**(100,564)**	(93,761)	(81)	(93,842)
Total assets less current liabilities	**1,972,984**	**-**	**1,972,984**	1,901,178	-	1,901,178
Creditors: amounts falling due after more than one year						
Loans and other borrowings	**(947,560)**	**-**	**(947,560)**	(911,560)	-	(911,560)
Other creditors	**(114,857)**	**-**	**(114,857)**	(114,255)	-	(114,255)
	(1,062,417)	**-**	**(1,062,417)**	(1,025,815)	-	(1,025,815)
Provisions for liabilities and charges						
Deferred tax provision	**(197,982)**	**-**	**(197,982)**	(173,693)	-	(173,693)
Other provisions	**(5,837)**	**-**	**(5,837)**	(10,315)	-	(10,315)
	(203,819)	**-**	**(203,819)**	(184,008)	-	(184,008)
Pension (liability)/asset	**(9,304)**	**-**	**(9,304)**	2,784	-	2,784
Net Assets	**697,444**	**-**	**697,444**	694,139	-	694,139
Capital and reserves						
Called up share capital	**500,000**	**-**	**500,000**	500,000	-	500,000
Distributable reserve	**171,690**	**-**	**171,690**	171,690	-	171,690
Profit and loss account	**25,754**	**-**	**25,754**	22,449	-	22,449
Shareholder's funds	**697,444**	**-**	**697,444**	694,139	-	694,139

These financial statements were approved and authorised for issue by the Board of Directors on 24 June 2015 and were signed on its behalf by:

Sara Venning
Chief Executive
24 June 2015

Statement of total recognised gains and losses

	Year to 31 March 2015			Year to 31 March 2014		
	Appointed business	**Non - Appointed business**	**Total**	Appointed business	Non - Appointed business	Total
	£000	**£000**	**£000**	£000	£000	£000
Profit / (loss) for the financial year	**14,386**	**-**	**14,386**	46,903	(4,922)	41,981
Actuarial (loss)/gain recognised in the pension scheme	**(13,851)**	**-**	**(13,851)**	10,015	-	10,015
Deferred tax arising on losses/(gains) in the pension scheme	**2,770**	**-**	**2,770**	(2,003)	-	(2,003)
Total recognised gains and losses relating to the financial year	**3,305**	**-**	**3,305**	54,915	(4,922)	49,993

Reconciliation between Statutory Accounts and historical cost Regulatory Accounts for the appointed and non-appointed business

The Company's Statutory Accounts are prepared under IFRS and this is reflected in its Statutory Accounts for the year ended 31 March 2015. However the Regulatory Accounts are prepared on the basis of Regulatory Accounting Guidelines and UK GAAP. The principal differences between the Company's Statutory Accounts and its Regulatory Accounts are set out below.

Profit and loss account / Statement of comprehensive income	**Year to 31 March 2015 £000**
a) Operating profit / Results from operating activities	
Per Regulatory Accounts	114,015
Difference in income under IFRIC 18	55,500
Difference in infrastructure accounting	17,760
Difference in depreciation - non infrastructure	(5,785)
Difference in amortisation of grants and contributions	(501)
Difference in treatment of PPP contracts	13,358
Difference in capitalisation of expenditure	(1,154)
Other IFRS / UK GAAP differences	(99)
Per Statutory Accounts	**193,094**
b) Net interest receivable/(payable) / Net finance costs	
Per Regulatory Accounts	(51,957)
Capitalised interest under IFRS	3,886
Notional lease interest on PPP assets reclassified under IFRS	(13,551)
Per Statutory Accounts	**(61,622)**
c) Deferred taxation/Income tax expense	
Per Regulatory Accounts	(24,129)
Per Statutory Accounts	**(24,129)**

Reconciliation between Statutory Accounts and historical cost Regulatory Accounts for the appointed and non-appointed business (continued)

Balance sheet / Statement of financial position	At 31 March 2015 £000
a) Fixed Assets / Property, plant and equipment	
Cost	
At 31 March per Regulatory Accounts	**2,597,677**
Reverse regulatory infrastructure (accrual) / prepayment	(702)
Intangible assets separately identified under IFRS	(68,165)
Investment properties separately identified under IFRS	(19,514)
Assets identified as classified as held for sale	(1,713)
Difference in capitalisation of expenditure	(16,294)
Capitalised interest under IFRS	14,600
PPP assets treated 'on balance sheet' under IFRS	127,218
Capital contributions treated differently under IFRS	340,570
De-recognition of infrastructure assets	(16,858)
Decommissioning of Omega assets under UK GAAP	6,939
At 31 March per Statutory Accounts	**2,963,758**
Depreciation	
At 31 March per Regulatory Accounts	**524,285**
Intangible assets separately identified under IFRS	(30,898)
Investment properties separately identified under IFRS	(12,703)
Assets identified as classified as held for sale	(698)
Difference in depreciation of infrastructure assets	(162,448)
Difference in depreciation of non-infrastructure assets	27,780
De-recognition of infrastructure assets	(16,858)
Decommissioning of Omega assets under UK GAAP	6,763
At 31 March per Statutory Accounts	**335,223**
b) Debtors due in less than one year / trade and other receivables	
At 31 March per Regulatory Accounts	**31,228**
Prepayments shown separately under IFRS	(10,749)
Capital maintenance prepayment for IFRS PPP reclassified assets	2,609
At 31 March per Statutory Accounts	**23,088**

Reconciliation between Statutory Accounts and historical cost Regulatory Accounts for the appointed and non-appointed business (continued)

Balance sheet/ Statement of financial position	**At 31 March 2015 £000**
c) Provisions	
At 31 March per Regulatory Accounts	**5,837**
Holiday pay provision under IFRS	771
At 31 March per Statutory Accounts	**6,608**
Provisions classified as non-current liabilities	1,481
Provisions classified as current liabilities	5,127
At 31 March per Statutory Accounts	**6,608**
d) Loans and borrowings	
At 31 March per Regulatory Accounts	**947,560**
Add: Alpha PPP lease liability shown in Regulatory Accounts within creditors: amounts falling due after more than one year	92,500
Add: Alpha PPP lease liability shown in Regulatory Accounts within creditors: amounts falling due within one year	1,888
Add: finance leases for PPP assets (Omega and Kinnegar) included as on balance sheet under IFRS and included within loans and borrowings	121,712
At 31 March per Statutory Accounts	**1,163,660**
Loans and borrowings classified as non-current liabilities	1,160,240
Loans and borrowings classified as current liabilities	3,420
At 31 March per Statutory Accounts	**1,163,660**

CURRENT COST FINANCIAL STATEMENTS

Profit and loss account for the appointed business

	Note	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Turnover	*3*	**364,407**	361,313
Current cost operating costs	*4*	**(306,624)**	(343,723)
Current cost profit on disposal of fixed assets	*3*	**488**	208
Working capital adjustment	*3,8*	**840**	2,001
Current cost operating profit		**59,111**	19,799
Net interest payable		**(51,957)**	(48,580)
Financing adjustment	*8*	**9,183**	23,962
Current cost profit/(loss) before taxation		**16,337**	(4,819)
Taxation on profit on ordinary activities:		**(17)**	-
Deferred tax		**(24,037)**	13,798
Current cost (loss)/profit attributable to Shareholder		**(7,717)**	8,979
Dividends		**(21,562)**	(21,391)
Current cost loss retained	*7*	**(29,279)**	(12,412)

Balance Sheet for the appointed business

		At 31 March 2015		At 31 March 2014	
	Note	**£000**	**£000**	£000	£000
Fixed assets					
Tangible assets	*5*	**8,859,341**		8,707,701	
Third party contributions		**(440,445)**		(384,624)	
			8,418,896		8,323,077
Working capital	*6*	**(97,443)**		(93,032)	
Cash	*9*	**792**		1,637	
Short term deposits	*9*	**20**		600	
Infrastructure renewals (accrual)/ prepayment		**(702)**		50	
			(97,333)		(90,745)
Non-operating assets and liabilities					
Non-trade debtors		**197**		20	
Non-trade creditors due within one year		**(2,477)**		(2,203)	
Investments		**91**		91	
Total non-operating liabilities			**(2,189)**		(2,092)
Creditors: amounts falling due after more than one year					
Borrowings		**(947,560)**		(911,560)	
Other creditors		**(93,773)**		(95,668)	
			(1,041,333)		(1,007,228)
Provisions for liabilities and charges					
Deferred tax provision		**(197,982)**		(173,693)	
Other provisions		**(5,837)**		(10,315)	
			(203,819)		(184,008)
Pension (liability)/asset			**(9,304)**		2,784
Net assets			**7,064,918**		7,041,788
Capital and reserves					
Called up share capital		**500,000**		500,000	
Distributable reserve		**171,690**		171,690	
Profit and loss account	*7*	**(400,480)**		(360,120)	
Current cost reserves	*8*	**6,793,708**		6,730,218	
Shareholder's funds			**7,064,918**		7,041,788

These financial statements were approved and authorised for issue by the Board of Directors on 24 June 2015 and were signed on its behalf by:

Sara Venning
Chief Executive
24 June 2015

Reconciliation of movements in Shareholder's funds

	Year to 31 March 2015	Year to 31 March 2014
	£000	£000
(Loss)/profit for the financial year	**(7,717)**	8,979
Dividends on shares classified in Shareholder's funds	**(21,562)**	(21,391)
Retained loss	**(29,279)**	(12,412)
Other recognised (losses)/gains relating to the year (net)	**(11,081)**	8,012
Profit and loss account	**(40,360)**	(4,400)
Increase in current cost reserves	**63,490**	169,298
Net addition to Shareholder's funds	**23,130**	164,898
Opening Shareholder's funds	**7,041,788**	6,876,890
Closing Shareholder's funds	**7,064,918**	7,041,788

Cash flow statement

	Year to 31 March 2015			Year to 31 March 2014		
	Appointed business £000	**Non - Appointed business £000**	**Total £000**	Appointed business £000	Non - Appointed business £000	Total £000
Net cash inflow from operating activities Note 11(a)	**195,707**	**2,214**	**197,921**	190,580	1,738	192,318
Returns on investments and servicing of finance						
Interest received	**80**	**-**	**80**	114	-	114
Interest paid	**(45,339)**	**-**	**(45,339)**	(43,723)	-	(43,723)
Interest element of finance lease	**(6,824)**	**-**	**(6,824)**	(6,933)	-	(6,933)
Net cash outflow from returns on investments and servicing of finance	**(52,083)**	**-**	**(52,083)**	(50,542)	-	(50,542)
Corporation tax paid	**(17)**	**(559)**	**(576)**	-	(90)	(90)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	**(134,620)**	**-**	**(134,620)**	(135,971)	-	(135,971)
Grants and contributions received	**7,333**	**-**	**7,333**	6,586	-	6,586
Infrastructure renewals expenditure	**(31,557)**	**-**	**(31,557)**	(30,118)	-	(30,118)
Disposal of fixed assets	**1,046**	**-**	**1,046**	1,164	-	1,164
Net cash outflow from investing activities	**(157,798)**	**-**	**(157,798)**	(158,339)	-	(158,339)
Equity dividends paid to the Shareholder	**(21,562)**	**(1,981)**	**(23,543)**	(21,391)	(7,655)	(29,046)
Cash outflow before management of liquid resources and financing	**(35,753)**	**(326)**	**(36,079)**	(39,692)	(6,007)	(45,699)
Management of liquid resources	**580**	**-**	**580**	4,700	-	4,700
Cash inflow from management of liquid resources	**580**	**-**	**580**	4,700	-	4,700
Net cash flow before financing	**(35,173)**	**(326)**	**(35,499)**	(34,992)	(6,007)	(40,999)
Financing						
Loans advanced	**36,000**	**-**	**36,000**	29,000	-	29,000
Capital element of finance lease repayments	**(1,672)**	**-**	**(1,672)**	(1,473)	-	(1,473)
Net cash inflow from financing	**34,328**	**-**	**34,328**	27,527	-	27,527
Net decrease in cash	**(845)**	**(326)**	**(1,171)**	(7,465)	(6,007)	(13,472)

Notes to the Regulatory Accounts

1 Regulatory reporting

The Regulatory Accounts should be read in conjunction with the Strategic Report on pages 1 to 90, for further understanding of the performance of the business.

The Directors' report provides information on the dividend policy on page 108 and on 'Disclosure of information to auditors' on page 110.

The Directors' remuneration report is on pages 111 to 115 and includes information on Directors' pay and standards of performance in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006.

The Directors confirm that no amounts were given to charitable trusts assisting customers or similar funds in the year ended 31 March 2015.

2 Accounting policies

(a) Basis of preparation
The Regulatory Accounts have been prepared on such a basis as to comply with the requirements of the Utility Regulator. These requirements are similar to those issued by Ofwat, the economic regulator for the water and sewerage industry in England and Wales.

The Regulatory Accounts have been prepared in accordance with Condition F of the 'Instrument of Appointment by the Department for Regional Development of Northern Ireland Water Limited as a Water and Sewerage undertaker' and the Ofwat Regulatory Accounting Guidelines (RAGS) adopted by the Utility Regulator and modified where required for conditions prevalent in Northern Ireland, the accounting policies set out in these notes and, in the case of the Regulatory Historic Cost Accounts, under the historical cost convention.

The Regulatory Accounts have been prepared on a going concern basis notwithstanding the net current liabilities. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Company operates as described below.

NI Water is subject to economic regulation rather than market competition. As a result, NI Water provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006 which designates Northern Ireland Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland.

Following the NI Assembly decision to defer the introduction of domestic water charges, NI Water receives funding by means of a subsidy provided by DRD. Due to the level of subsidy, NI Water is also designated as a Non-Departmental Public Body (NDPB) and is subject to public sector spending rules i.e. Public Expenditure.

As required by the Licence, NI Water submitted a Business Plan to the Utility Regulator in March 2014 setting out its proposals for the price control period from 1 April 2015 to 31 March 2021 (PC15). The Utility Regulator published a Draft Determination for consultation in July 2014 and a Final Determination in December 2014. The Final Determination establishes the funding required by NI Water to meet Departmental targets contained within the Social and Environmental Guidance and requires NI Water to deliver enhanced regulatory outputs, continued investment, improvement in service and efficiencies.

2 Accounting policies (continued)

On 10 February 2015, NI Water advised the Utility Regulator that the Board would, on balance, have been willing to accept the PC15 Final Determination subject to Public Expenditure funding to the levels established by the PC15 Final Determination, an appropriate risk mitigation mechanism and other flexibilities. However a significant shortfall in Public Expenditure funding in 2015/16 and no clarity of funding for the period beyond 2015/16, meant the Board had no option but to reject the PC15 Final Determination in the circumstances.

On 3 March 2015, DRD wrote to NI Water confirming the final 2015/16 budget allocation for NI Water. While the gap in Public Expenditure funding for 2015/16 had been bridged somewhat, DRD advised that work will be needed to assess changes to outputs required of NI Water because funding is not at the level required by the Utility Regulator.

NI Water has been engaging positively with the Utility Regulator and DRD to consider appropriate 2015/16 outputs and the Company anticipates that an agreement will be reached. During the ongoing discussions, the Utility Regulator has not given any indications that it would consider rescinding the Licence in the future and all parties are working together to reach a satisfactory conclusion.

On the basis of the discussions the directors have formed a judgement at the time of approving the financial statements, that the company will be able to reach an agreement with the Utility Regulator and hence to apply adequate resources to continue in operational existence for the foreseeable future and as such these conditions do not cast a significant doubt on the Company's ability to continue as a going concern.

The Company has the following short-term and long-term cash and bank facilities:

- a new capital loan arrangement to 31 March 2021 has been established to fund the capital expenditure for the business. This also includes the facility to drawdown loan notes to cover unforeseen events/emergency situations;
- DFP has confirmed that the £20m working capital facility will be extended to 31 March 2021 which will provide access to cash facilities for short-term needs and for unforeseen events/emergency situations;
- the Subsidy Agreement with DRD permits the early drawdown of subsidy in year if the cash is required; and
- DFP has confirmed that the Company will continue to access transactional banking services under any new Northern Ireland Civil Service arrangements established from 1 April 2016.

(b) General
The regulatory accounting policies are based on UK GAAP. The Statutory Accounts are based on IFRSs (as adopted by the EU). A reconciliation between the Statutory Accounts and the historical cost Regulatory Accounts for the appointed and non-appointed business is included in the Regulatory Accounts (pages 183 to 185). The significant differences between the accounting policies adopted in the Statutory Accounts and those adopted for the Regulatory Accounts are summarised below.

(c) Tangible fixed assets and depreciation
The value of tangible fixed assets at 1 April 2007 included in the current cost accounts are based on the closing balances included in DRD Water Service's audited accounts at 31 March 2007 prior to the application of the impairment adjustment. The current cost values in DRD Water Service were based on an asset management plan which reported at 1 September 2001 and which was updated to include subsequent expenditure and indexed to reflect inflation. Assets with an open market value, including surplus land, were separately valued at 31 March 2007 and these values have been adopted at 1 April 2007.

2 Accounting policies (continued)

The RAGs and any modifications issued by the Utility Regulator have been followed in the preparation of the current cost accounts.

The Utility Regulator does not require NI Water to revalue its assets on a Modern Equivalent Asset Value (MEAV) basis, in accordance with the RAGs.

Tangible fixed assets are restated to current value each year. The Retail Price Index (RPI) has been used to reflect changes in the general level of inflation during the year. Assets in the course of construction are not indexed until they are brought into use.

The infrastructure renewals charge (IRC) is part of the renewals accounting approach permitted under UK GAAP but not permitted under IFRS (IFRS requires depreciation of infrastructure assets in line with appropriate asset lives). The IRC is defined as the annual accounting provision for expenditure on the renewal of infrastructure assets charged to the profit and loss account. It should reflect the Company's assessment of its medium to long term infrastructure renewals expenditure (IRE) needs. The IRC for NI Water is based on the determination of PC13. The Utility Regulator determined that the IRC should be set equal to the anticipated IRE for each year of the two years contained within the business plan. The IRE formed part of the PC13 capital expenditure plan. The IRE in the year ended 31 March 2015 was based on an analysis of capital expenditure on a project-by-project basis.

The capitalisation policy differs between the Regulatory Accounts and Statutory Accounts in relation to IRE. Some elements of IRE capitalised under UK GAAP are categorised as infrastructure repairs under IFRS and as such, are expensed directly to profit under IFRS.

Infrastructure assets which have been replaced are de-recognised under IFRS, whereas the UK GAAP approach in the Regulatory Accounts does not derecognise these replaced assets.

(d) Grants and other third party contributions
Grants, infrastructure and third party contributions include government grants, infrastructure charges, connection charges, requisitioning of water mains or sewers, sewer adoption fees and contributions from third parties. Grants and contributions for capital expenditure, other than infrastructure assets, are credited to a deferral account within creditors and are released to the profit and loss account evenly over the expected useful life of the relevant asset in accordance with the Companies Act 2006.

Grants, contributions and capital subsidy for capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with the Companies Act 2006 which requires grants and contributions to be shown as deferred income, but has been adopted in order to show a true and fair view, in the opinion of the Directors. This approach is consistent with the policy on depreciation of infrastructure assets permitted under UK GAAP and adopted in the Regulatory Accounts as outlined above in note 2(c). Under UK GAAP a provision is made for depreciation of infrastructure assets but this it is not calculated with reference to useful economic lives (UELs). Hence, unlike in the Statutory Accounts under IFRS, capital contributions are not recognised as deferred income and amortised in line with UELs but are deducted directly from the cost of these assets.

Under IFRS, all third party contributions are treated as income at the point of recognition and are credited to turnover. Grants are treated similarly in the Statutory and Regulatory Accounts.

(e) Real financial capital maintenance adjustments
These adjustments are made to historical cost operating profit in order to arrive at profit after the maintenance of financial capital in real terms:

- working capital adjustment – this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock, less trade creditors; and

2 Accounting policies (continued)

- financing adjustment – this is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all assets and liabilities in the balance sheet apart from those included in working capital and excluding fixed assets, deferred taxation provision, index linked debt and dividends payable.

(f) Apportionment of costs between the appointed and non-appointed business activities
The non-appointed business relates mainly to septic tank emptying, vehicle maintenance services carried out on behalf of, primarily, DRD Transport NI and income associated with aerial masts erected on Company property. A reasonable proportion of operating and other costs have been apportioned to these activities based on turnover and assumptions on the costs incurred. The results from the non-appointed activities are shown in the historical cost financial statements and regulatory cash flow statements.

(g) PPP contracts
The Regulatory Accounts under UK GAAP treat the Alpha project as 'on balance sheet' and the Omega and Kinnegar projects as 'off balance sheet'. This is in line with UK GAAP and the assessment of where the risks and rewards of the contracts reside. The assets associated with Alpha are capitalised and shown on NI Water's balance sheet, with a corresponding finance lease creditor established. The unitary charges for Alpha are apportioned to the profit and loss account (service charges and finance lease interest) and to the balance sheet (lease repayment and capital maintenance). The Omega and Kinnegar assets are not deemed to be owned by NI Water and are not shown on the balance sheet. The unitary charges for Omega and Kinnegar are apportioned to the profit and loss account (service charges) and to the balance sheet (residual interest asset). The residual interest asset recognises a build-up of value on the balance sheet, until the residual value of the assets revert to NI Water at the end of the contract period. The Statutory Accounts under IFRS treat all three PPP projects as 'on balance sheet' and as such all associated assets are capitalised and corresponding finance leases are created.

(h) Provisions
An additional provision for holiday pay has been included in the Statutory Accounts as required under IFRS.

3 Analysis of current cost turnover and operating income for the appointed business

	Year to 31 March 2015			Year to 31 March 2014		
	Water services £000	**Sewerage services £000**	**Total £000**	Water services £000	Sewerage services £000	Total £000
Turnover						
Unmeasured – household	**126,574**	**135,825**	**262,399**	122,139	138,161	260,300
Unmeasured – non household	**1,762**	**2,102**	**3,864**	2,049	2,545	4,594
Total unmeasured	**128,336**	**137,927**	**266,263**	124,188	140,706	264,894
Measured – non household	**39,872**	**26,168**	**66,040**	38,465	24,148	62,613
Total measured	**39,872**	**26,168**	**66,040**	38,465	24,148	62,613
Trade effluent	**-**	**3,561**	**3,561**	-	3,889	3,889
Large user and special agreements	**5,136**	**3,711**	**8,847**	5,243	4,041	9,284
Total trade effluent and large user special agreements	**5,136**	**7,272**	**12,408**	5,243	7,930	13,173
Rechargeable works	**56**	**56**	**112**	92	92	184
Other third party services	**191**	**19,393**	**19,584**	162	20,287	20,449
Total third party services	**247**	**19,449**	**19,696**	254	20,379	20,633
Total turnover	**173,591**	**190,816**	**364,407**	168,150	193,163	361,313

	Year to 31 March 2015			Year to 31 March 2014		
	Water services £000	**Sewerage services £000**	**Total £000**	Water services £000	Sewerage services £000	Total £000
Operating income and working capital adjustment for the appointed business:						
Current cost profit on disposal of fixed assets	**255**	**233**	**488**	208	-	208
Working capital adjustment	**840**	**-**	**840**	2,001	-	2,001

4a Analysis of operating costs and tangible fixed assets

	Year to 31 March 2015							
	Water Services			Sewerage Services				
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	**Total £000**
Direct costs								
Employment costs	3,665	9,807	13,472	3,863	4,445	260	8,568	**22,040**
Power	10,630	3,478	14,108	4,749	10,490	3,020	18,259	**32,367**
Hired and contracted services	2,139	5,788	7,927	5,967	2,182	2,404	10,553	**18,480**
Materials and consumables	3,447	508	3,955	171	410	492	1,073	**5,028**
Service Charges	734	7	741	154	675	182	1,011	**1,752**
Other direct costs	3	37	40	3	3	-	6	**46**
Total direct costs	**20,618**	**19,625**	**40,243**	**14,907**	**18,205**	**6,358**	**39,470**	**79,713**
General and support expenditure	6,975	7,482	14,457	7,262	9,840	2,002	19,104	**33,561**
Total functional expenditure	**27,593**	**27,107**	**54,700**	**22,169**	**28,045**	**8,360**	**58,574**	**113,274**
Business activities								
Customer services			4,327				4,200	**8,527**
Scientific services			1,368				1,328	**2,696**
Other business activities			1,037				1,007	**2,044**
Rates			7,942				5,939	**13,881**
Doubtful debts			554				282	**836**
Total operating expenditure less third party services			**69,928**				**71,330**	**141,258**
Services for third parties			4				-	**4**
Total PPP unitary charge			8,431				24,323	**32,754**
Total operating expenditure			**78,363**				**95,653**	**174,016**
Capital costs								
Infrastructure renewals charge			22,488				9,821	**32,309**
Current cost depreciation:								
service activities	21,371	16,023	37,394	2,690	62,219	1,714	66,623	**104,017**
business activities			164				4	**168**
Amortisation of grants			(1,562)				(2,324)	**(3,886)**
Total capital costs			**58,484**				**74,124**	**132,608**
Total operating costs			**136,847**				**169,777**	**306,624**
Analysis of tangible fixed assets – MEAV[43]								
Service activities	793,064	3,352,286	4,145,350	3,362,610	1,318,036	32,524	4,713,170	**8,858,520**
Business activities			427				395	**822**
Total			**4,145,777**				**4,713,565**	**8,859,342**

[43] Asset values shown above are based on the valuation method described in note 2(c) to the Regulatory Accounts.

4b Analysis of operating costs and tangible fixed assets

	Year to 31 March 2014							
	Water Services			Sewerage Services				
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	**Total £000**
Direct costs								
Employment costs	3,781	9,625	13,406	3,661	4,767	576	9,004	**22,410**
Power	10,475	3,664	14,139	5,625	10,762	3,219	19,606	**33,745**
Hired and contracted services	2,328	5,340	7,668	6,657	1,265	2,582	10,504	**18,172**
Materials and consumables	3,598	476	4,074	97	484	538	1,119	**5,193**
Service Charges	715	7	722	160	745	183	1,088	**1,810**
Other direct costs	4	30	34	11	9	1	21	**55**
Total direct costs	**20,901**	**19,142**	**40,043**	**16,211**	**18,032**	**7,099**	**41,342**	**81,385**
General and support expenditure	7,598	7,928	15,526	7,388	10,231	2,379	19,998	**35,524**
Total functional expenditure	**28,499**	**27,070**	**55,569**	**23,599**	**28,263**	**9,478**	**61,340**	**116,909**
Business activities								
Customer services			4,472				4,564	**9,036**
Scientific services			1,193				1,217	**2,410**
Other business activities			1,123				1,146	**2,269**
Rates			8,020				4,791	**12,811**
Doubtful debts			521				233	**754**
Total operating expenditure less third party services			**70,898**				**73,291**	**144,189**
Services for third parties			16				9	**25**
Total PPP unitary charge			8,234				24,896	**33,130**
Total operating expenditure			**79,148**				**98,196**	**177,344**
Capital costs								
Infrastructure renewals charge			23,935				9,474	**33,409**
Current cost depreciation:								
service activities	21,190	30,581	51,771	3,184	78,642	1,682	83,508	**135,279**
business activities			167				12	**179**
Amortisation of grants			(962)				(1,526)	**(2,488)**
Total capital costs			**74,911**				**91,468**	**166,379**
Total operating costs			**154,059**				**189,664**	**343,723**
Analysis of tangible fixed assets – MEAV[44]								
Service activities	790,229	3,292,120	4,082,349	3,285,604	1,305,525	33,039	4,624,168	**8,706,517**
Business activities			669				515	**1,184**
Total			**4,083,018**				**4,624,683**	**8,707,701**

[44] Asset values shown above are based on the valuation method described in note 2(c) to the Regulatory Accounts.

4a and 4b - Analysis of operating costs and tangible fixed assets (continued)

The tables above showing the analysis of operating costs have been prepared in accordance with Regulatory Accounting Guidelines 4.03 ‘Analysis of operating costs and assets’. Direct costs have been charged directly to the service to which they relate. General and support costs are, where possible, allocated directly to the service to which they relate. Any remaining general and support costs which cannot be directly allocated to a particular service are apportioned either on the basis of the directly coded spend or on the basis of the direct labour charge. All costs relating to business activities such as customers services, scientific services and other, were collated using the relevant cost centre from the General Ledger. The total expenditure attributable to these activities was apportioned to water and sewerage on the basis of the directly coded expenditure.

Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for the year ended 31 March 2015 in respect of infrastructure assets amounted to £8.5m (2014: £9.2m) for water services and £3.6m (2014: £4.9m) for sewerage services.

5 Current cost analysis of tangible fixed assets by assets type

Water Services	**Specialised Operational Assets £000**	**Non - Specialised Operational Assets £000**	**Infrastructure Assets £000**	**Other Assets £000**	**Total £000**
Gross replacement cost					
At 1 April 2014	1,033,580	8,459	3,358,813	48,816	**4,449,668**
RPI and other adjustments	8,892	24	30,357	440	**39,713**
Disposals	(2,228)	(1,720)	-	(506)	**(4,454)**
Additions	29,593	-	30,713	3,846	**64,152**
At 31 March 2015	**1,069,837**	**6,763**	**3,419,883**	**52,596**	**4,549,079**
Depreciation					
At 1 April 2014	(276,015)	(2,912)	(53,290)	(34,433)	**(366,650)**
RPI and other adjustments	(2,494)	(15)	(483)	(315)	**(3,307)**
Disposals	2,217	1,508	-	488	**4,213**
Charge for year	(32,880)	(33)	-	(4,645)	**(37,558)**
At 31 March 2015	**(309,172)**	**(1,452)**	**(53,773)**	**(38,905)**	**(403,302)**
Net book value at 31 March 2015	**760,665**	**5,311**	**3,366,110**	**13,691**	**4,145,777**
Net book value at 1 April 2014	757,565	5,547	3,305,523	14,383	**4,083,018**

5 Current cost analysis of tangible fixed assets by assets type (continued)

Sewerage Services	Specialised Operational Assets £000	Non - Specialised Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross replacement cost					
At 1 April 2014	1,611,501	12,050	3,410,982	48,214	**5,082,747**
RPI and other adjustments	14,049	26	30,110	528	**44,713**
Disposals	(737)	(2,475)	-	(393)	**(3,605)**
Additions	58,314	-	56,379	553	**115,246**
At 31 March 2015	**1,683,127**	**9,601**	**3,497,471**	**48,902**	**5,239,101**
Depreciation					
At 1 April 2014	(413,682)	(4,095)	(2,723)	(37,564)	**(458,064)**
RPI and other adjustments	(3,745)	(22)	(23)	(344)	**(4,134)**
Disposals	2,447	454	-	387	**3,288**
Charge for year	(61,467)	(75)	-	(5,085)	**(66,627)**
At 31 March 2015	**(476,447)**	**(3,738)**	**(2,746)**	**(42,606)**	**(525,537)**
Net book value at 31 March 2015	**1,206,680**	**5,863**	**3,494,725**	**6,296**	**4,713,564**
Net book value at 1 April 2014	1,197,819	7,955	3,408,259	10,650	**4,624,683**

Total Services	Specialised Operational Assets £000	Non - Specialised Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross replacement cost					
At 1 April 2014	2,645,081	20,509	6,769,795	97,030	**9,532,415**
RPI and other adjustments	22,941	50	60,467	968	**84,426**
Disposals	(2,965)	(4,195)	-	(899)	**(8,059)**
Additions	87,907	-	87,092	4,399	**179,398**
At 31 March 2015	**2,752,964**	**16,364**	**6,917,354**	**101,498**	**9,788,180**
Depreciation					
At 1 April 2014	(689,697)	(7,007)	(56,013)	(71,997)	**(824,714)**
RPI and other adjustments	(6,239)	(37)	(506)	(659)	**(7,441)**
Disposals	4,664	1,962	-	875	**7,501**
Charge for year	(94,347)	(108)	-	(9,730)	**(104,185)**
At 31 March 2015	**(785,619)**	**(5,190)**	**(56,519)**	**(81,511)**	**(928,839)**
Net book value at 31 March 2015	**1,967,345**	**11,174**	**6,860,835**	**19,987**	**8,859,341**
Net book value at 1 April 2014	1,955,384	13,502	6,713,782	25,033	**8,707,701**

5 Current cost analysis of tangible fixed assets by assets type (continued)

In the preparation of its Statutory Accounts, the Company has adopted IFRS.

The Regulatory Accounts are prepared under UK GAAP except in relation to infrastructure renewals accounting as required by FRS 15 'Tangible Fixed Assets'. FRS 15 is not applied for the purposes of infrastructure renewals accounting within the Regulatory Accounts.

A reconciliation of the tangible fixed assets shown in the Regulatory Accounts to those shown in the Statutory Accounts is set out below:

	Infrastructure Assets £000
Cost	
At 31 March 2015 per Regulatory Accounts	**6,917,354**
Adjustment to opening balance at 1 April 2014[45]	(5,639,839)
Add back capital contributions	340,570
Infrastructure renewals expenditure capitalised in the year	31,557
Decommissioning of Omega assets under UK GAAP	2,522
IFRS adjustments:	
Difference in treatment of capitalisation of expenditure	(16,294)
Capitalised interest	5,816
Difference in treatment of PPP assets	9,509
De-recognition of assets	(16,858)
At 31 March 2015 per Statutory Accounts	**1,634,337**
Depreciation	
At 31 March 2015 per Regulatory Accounts	**(56,519)**
Depreciation charge for infrastructure expenditure	(36,519)
At 31 March 2015 per Statutory Accounts	**(93,038)**
Net book value	
At 31 March 2015 per Regulatory Accounts	**6,860,835**
Adjustment to opening balance at 1 April 2014	(5,639,839)
Add back capital contributions	340,570
Infrastructure renewals expenditure capitalised in the year	31,557
Decommissioning of Omega assets under UK GAAP	2,522
Depreciation charge for infrastructure expenditure	(36,519)
IFRS adjustments	(17,827)
At 31 March 2015 per Statutory Accounts	**1,541,299**
Infrastructure renewals prepayment	
At 31 March 2015 per Regulatory Accounts	**(702)**
Less infrastructure renewals prepayment	702
At 31 March 2015 per Statutory Accounts	**-**

[45] This adjustment includes the impact of reporting the additions to infrastructure assets in 'Assets in course of construction' within the Statutory Accounts.

6 Working capital (current cost)

	At 31 March 2015 £000	At 31 March 2014 £000
Stocks	**2,269**	2,021
Trade debtors:		
- measured non-household	**8,647**	8,037
- unmeasured non-household	**2,681**	2,764
Other trade debtors	**364**	383
Measured income accrual	**9,438**	9,180
Prepayments and other debtors	**9,432**	6,783
Trade creditors	**(21,205)**	(6,656)
Deferred income - customer advance receipts	**(3,546)**	(3,459)
Capital creditors	**(52,101)**	(59,734)
Accruals and other creditors	**(53,422)**	(52,351)
	(97,443)	(93,032)

7 Profit and loss reserve

	At 31 March 2015 £000	At 31 March 2014 £000
At 1 April	**(360,120)**	(355,720)
Retained current loss for year	**(29,279)**	(12,412)
FRS 17 actuarial (loss)/gain	**(13,851)**	10,015
Deferred tax on actuarial loss/(gain)	**2,770**	(2,003)
At 31 March	**(400,480)**	(360,120)

8 Movement on current cost reserve

	At 31 March 2015 £000	At 31 March 2014 £000
At 1 April	**6,730,218**	6,560,920
RPI adjustments:		
Fixed assets	**76,985**	202,983
Grants and third party contributions	**(3,472)**	(7,722)
Working capital	**(840)**	(2,001)
Financing	**(9,183)**	(23,962)
At 31 March	**6,793,708**	6,730,218

9 Net debt analysis

	Fixed rate Year to 31 March 2015 £000	**Total Year to 31 March 2015 £000**	Fixed rate Year to 31 March 2014 £000	Total Year to 31 March 2014 £000
Maturity Profile				
Less than one year	**(1,888)**	**(1,888)**	(1,672)	(1,672)
Between one and two years	**(4,038)**	**(4,038)**	(4,010)	(4,010)
Between two and five years	**(6,057)**	**(6,057)**	(7,973)	(7,973)
Between five and twenty years	**(1,029,965)**	**(1,029,965)**	(993,965)	(993,965)
More than twenty years	**-**	**-**	-	-
Total borrowings	**(1,041,948)**	**(1,041,948)**	(1,007,620)	(1,007,620)
Cash	**792**	**792**	1,637	1,637
Short term deposits	**20**	**20**	600	600
Net debt at 31 March	**(1,041,136)**	**(1,041,136)**	(1,005,383)	(1,005,383)

10 Reconciliation of historical cost profit to current cost loss

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Historical cost profit per regulatory accounts	**14,386**	41,981
Add back non-appointed activities loss	**-**	4,922
Sub-total historical cost profit	**14,386**	46,903
Less difference in profit on disposals	**(37)**	(68)
Working capital adjustment	**840**	2,001
Financing adjustment	**9,183**	23,962
Add back historical cost depreciation including infrastructure renewals charge	**79,832**	81,989
Less current cost depreciation	**(104,185)**	(135,458)
Less infrastructure renewals charge	**(32,309)**	(33,409)
Add back historical cost amortisation of grant reserve	**(875)**	(820)
Less current cost amortisation of grant reserve	**3,886**	2,488
Current cost operating loss	**(29,279)**	(12,412)

11a Reconciliation of current cost operating profit to net cash inflow from operating activities for the appointed business

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Current cost operating profit	**59,111**	19,799
Working capital adjustment	**(840)**	(2,001)
Movement in working capital	**12,045**	8,388
Current cost depreciation	**104,185**	135,458
Current cost profit on sale of fixed assets	**(488)**	(208)
Infrastructure renewals charge	**32,309**	33,409
Other non-cash items		
Amortisation of deferred grants and contributions	**(3,886)**	(2,488)
PPP residual asset credits	**(3,469)**	(3,385)
Excess of pension payments over FRS17 charge	**1,219**	881
Movement in provisions and creditors greater than 1 year	**(4,479)**	727
Net cash inflow from operating activities	**195,707**	190,580

11b Analysis of net debt

	1 April 2014 £000	**Cash flows £000**	**Non cash* changes £000**	**31 March 2015 £000**
Cash at bank and in hand	1,637	(845)	-	792
Deposits and investments	600	(580)	-	20
	2,237	(1,425)	-	812
Debt due within one year	(1,672)	-	(216)	(1,888)
Debt due after one year (including PPP liability)	(1,005,948)	(34,328)	216	(1,040,060)
Total	**(1,005,383)**	**(35,753)**	**-**	**(1,041,136)**

* The non cash changes relate to the movement during the year on the PPP liability due within one year.

12 Regulatory capital value (RCV)

The RCV has been developed for regulatory purposes and represents the capital base established for the purposes of setting price limits. In line with RAG 1.04, this note is compiled using figures assumed in setting prices during the Price Control process. The 2014/15 data is therefore consistent with data contained within PC13 published by the Utility Regulator in December 2012. Within the RCV, the prior year balance has been indexed by the average RPI over the year to March and the capital expenditure has been indexed by the latest available Construction Output Prices Index (COPI) forecast.

	At 31 March 2015 £'m	At 31 March 2014 £'m
Prior Year Closing RCV	**1,948.8**	1,812.8
Indexation and other adjustments	**38.2**	52.3
Opening RCV	**1,987.0**	1,865.1
Capital expenditure	**129.2**	137.3
Infrastructure renewals expenditure	**33.8**	34.1
Infrastructure renewals charge	**(33.8)**	(34.1)
Grants and contributions	**(6.0)**	(5.8)
Depreciation (including capital grants)	**(42.3)**	(46.7)
Disposal of assets	**(6.6)**	(1.1)
Closing RCV (pre regulatory adjustments)	**2,061.3**	1,948.8
Regulatory adjustments	**(15.8)**	-
Closing RCV	**2,045.5**	1,948.8
Average RCV	**1,997.2**	1,880.8

Regulatory Adjustments for the PC13 period	
Notified Index	3.3
Logging up / down	(22.7)
Asset disposals	3.6
Total PC13 Regulatory Adjustments	**(15.8)**

12 Regulatory capital value (RCV) (continued)

The PC15 Final Determination* also includes a number of regulatory adjustments within the roll forward of the PC13 RCV at 31 March 2015. These adjustments are set out in the Utility Regulator's PC15 Final Determination Annex A 'Financing Investment' and an explanation of the adjustments included below:

i) The net capital expenditure which is added to the RCV reflects assumptions about the movement in COPI relative to the movement in RPI. This difference is known as the notified index. The adjustment at the price review reflects the difference between the change in COPI assumed when price limits were set and the actual change over the period.

ii) The logging up / down adjustment deals with changes to outputs associated with the capital programme since prices were set for PC13. Additional capital expenditure accepted by the Utility Regulator is logged up, and reductions are logged down, ensuring customers do not continue to finance projects which have not been delivered.

iii) The asset disposal adjustment reflects lower disposals than originally forecast for the PC10 period.

* The NI Water Board rejected the PC15 Final Determination because of the circumstances outlined in Note 2(a) of the Regulatory Accounts.

Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited

We have audited the Regulatory Accounts of Northern Ireland Water Limited ("the Company") for the year ended 31 March 2015 as set out on pages 178 to 204 which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between the Statutory and Regulatory Accounts; and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost reconciliation of movements in Shareholder's funds, the current cost cash flow statement and the related notes to the current cost financial statements including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

Opinions and conclusions arising from our audit

1 Our opinion on the regulatory accounts is unmodified

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the Northern Ireland Authority for Utility Regulation ("NIAUR") and the accounting policies set out on pages 190 to 193, the state of the Company's affairs at 31 March 2015 on an historical cost and current cost basis, and its historical cost profit, the current cost loss and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies.

2 Our opinion on the regulatory accounts is accompanied by an emphasis of matter - basis of valuation of tangible fixed assets

The accounting policies of the Regulatory Accounts set out details in respect of the current cost basis of valuation of tangible fixed assets. We draw your attention to the fact that the valuation is not based on a Modern Equivalent Asset Value (MEAV) as required by the Regulatory Accounting Guideline as the NIAUR has granted the Company a specific exemption in this regard. Our opinion is not qualified in this regard.

3 Our opinion on the regulatory accounts is accompanied by an emphasis of matter - basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the EU ('IFRSs'). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 180 to 185 have been drawn up in accordance with Regulatory Accounting Guideline 3.06, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 are given on pages 184 to 185.

4 Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Basis of our report, responsibilities and restriction on use

(i) As explained more fully in the Statement of Directors' Responsibilities set out on page 116 the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated paragraph (iv) below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Financial Reporting Council Ethical Standards for Auditors.

(ii) An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Regulatory Accounts.

(iii) In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

(iv) We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company. Furthermore, as the nature, form and content of the Regulatory Accounts are determined by the NIAUR, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

(v) Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2015 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

(vi) This report is made, on terms that have been agreed, solely to the Company and the NIAUR in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Department for Regional Development to Northern Ireland Water Limited as a water and sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the NIAUR those matters that we have agreed to state to them in our report, in order:

(a) to assist the Company to meet its obligation under the Company's Instrument of Appointment to procure such a report; and
(b) to facilitate the carrying out by the NIAUR of its regulatory functions, and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the NIAUR, for our audit work, for this report, or for the opinions we have formed.

KPMG

KPMG
Chartered Accountants
Belfast
25 June 2015

Notes:
1. The maintenance and integrity of the Company's web site is the responsibility of the Directors and the maintenance and integrity of the Utility Regulator's web site is the responsibility of the Utility Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.

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