northern ireland water

Annual Report and Accounts
2012/13

Delivering the best ever service to our customers

Northern Ireland Water Limited
Annual Report and Accounts
For the year ended 31 March 2013

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

30 July 2013

Highlights…

1 Improving performance. We are delivering the best ever overall levels of service* for customers.

* Based on an Overall Performance Assessment (OPA) score of 198.

2 Safeguarding our workforce. Absence related accidents are at a near record low level, contributing towards an attendance level of 96.8%.

3 Protecting our environment. We are continuing to deliver the highest drinking water and wastewater compliance. Pollution incidents are at a record low level.

4 Operating more efficiently. We delivered a £12m* reduction in our every day running costs in 2012/13 and outperformed the PC10 operating costs by £20m**. The efficiency gap with the average of our comparator group has reduced to 24.8% in 2011/12.

* Based on an approach used by the Utility Regulator.
** In addition to the reduction in running costs. Based on the PC10 Final Determination and using a different methodology to the reduction in running costs.

5 Delivering against our Business Plan. We have successfully delivered against the PC10 Final Determination. This is another important milestone in our transition towards being a modern, efficient water utility.

6 Supporting our local economy. We are investing around £165m per annum to create an infrastructure platform for economic growth, while also injecting a similar amount annually to the local economy through everyday running costs.

This publication is also available for download from our website at http://www.niwater.com/reports/

Contents

We welcome your feedback

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.

Cautionary Statement: the Business Review and certain other sections of this document contain forward looking statements which are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in Northern Ireland. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

Image on front cover – Upper Woodburn Impounding Reservoir, County Antrim.

BUSINESS REVIEW

Antrim Wastewater Treatment Works, County Antrim
(Image courtesy of Alan Lavery Photography)

Welcome

NI Water is one of Northern Ireland's largest companies. Our business is about delivery of water and sewerage services in Northern Ireland[1]. We provide a **vital service** which supports the health, environment and local economy of the areas we serve.

The successful completion of the 2010-13 (PC10) period represents another important milestone in our **transition** towards being a modern, efficient water utility.

Over the PC10 period we have **improved** our business, attaining the highest ever levels of service to customers, outperforming the PC10 operating costs by £20m[2], and investing around £165m each year to support our local economy.

We have also improved our **resilience** to meet the demands of a major incident response. This included work to set up a mutual aid protocol among Northern Ireland's main utility companies. It is believed this approach in Northern Ireland is the first of its kind across the United Kingdom. I would like to pay tribute to the efforts of both our employees and other utilities involved in responding to the severe weather in March 2013.

Seán Hogan, Chairman

We have improved the levels of service to our customers. Our OPA score has **more than doubled** from 98 in 2007/08 to 198 in 2012/13.

The Overall Performance Assessment (OPA) is a composite score used by the Utility Regulator to assess NI Water's levels of service.

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Read more about our response to the severe weather in March 2013.

[1] NI Water was appointed the sole provider of water and sewerage services in Northern Ireland on 1 April 2007. These functions were previously undertaken by Water Service, an agency within the Department for Regional Development.
[2] In addition to the reduction in running costs. Based on the PC10 Final Determination and using a different methodology to the reduction in running costs.

Many **challenges** lie ahead. The approach to delivering water and sewerage services is changing. Climate change, an increasing focus on the value of water, rising customer expectations and higher discharge standards all require us to adopt a more sustainable approach.

We recognise the need for more environmentally and economically **sustainable solutions.** These include improved land management, reduced leakage and customer demand; and local management of storm water.

We are working to develop a framework within which more sustainable solutions can be delivered. Such an approach will include incremental **changes to how we operate** and will require input from all our stakeholders.

Our hybrid business delivery model[3] is recognised as being **sub-optimal**. We face uncertainty over long term investment planning resulting in a sub-optimum capital investment delivery; and have less commercial freedoms to restructure and make decisions. We work closely with stakeholders to limit the effect this has on our performance.

Climate Northern Ireland

Page 63
Read more about our involvement with Climate Northern Ireland.

Page 68
Read more about our work on Sustainable Catchment Area Management Planning (SCAMP).

Find out more about how we work with stakeholders through the Price Control process:

www.

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

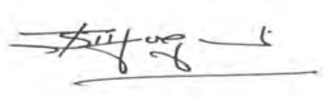
Find out more about the DRD's long term water strategy:

www.

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

3 NI Water is a Government Company and is also classified as a Non-Departmental Public Body (NDPB) for Public Expenditure purposes. The NDPB status reflects the fact that a significant proportion of the Company's revenue comes from Government subsidy in lieu of deferred domestic water and sewerage charges.

Despite these challenges, the progress made over the three year PC10 period has enabled the organisation to move further along our **transition** path. We look forward to reporting further progress in the first year of PC13[4], and to working constructively with all our stakeholders as we plan for PC15[5].



Seán Hogan, Chairman
26 June 2013

[4] PC13 is the Price Control covering the two year period ending in 2014/15.
[5] PC15 is the Price Control covering the six year period ending in 2020/21.

Business model

Our business 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.

The remaining 1% is freshwater and provides all the water we use
- it includes all the lakes and rivers of the world
- all the water in the atmosphere
- all the water underground.

- All the water in the world's atmosphere only equals about 10 days' normal rainfall.
- You can imagine that if water was something we used up like gas or oil, then the world would run dry very quickly.
- We depend on the constant recycling of that 1% of water to meet all our needs.

The Water Cycle

We have a never ending supply of water through a natural process we call 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.

This water or hydrological cycle has to be used sensibly by humans to meet our needs.

Reservoir

This water then finds its way to streams and rivers, or it can percolate through porous ground such as chalk or it can be trapped in man-made reservoirs. The reservoirs, rivers, lakes and natural underground water stores (aquifers) are the sources of water we use at home and at work.

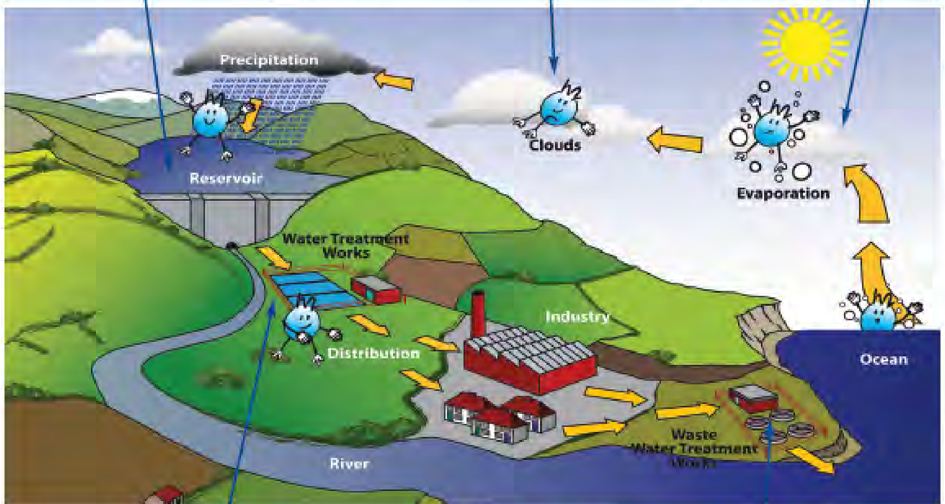
Cloud Storage/Rain

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:
1. finds its way to streams and rivers, or
2. can pass through porous ground such as chalk or
3. can be trapped in man-made reservoirs.

The reservoirs, rivers, lakes and natural underground water stores (aquifers) are the sources of freshwater we use.

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 and it cools again to form clouds and then turns to rain.



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 are removed. The water is then supplied through a network of pipes to homes, schools, factories and to all other users.

Wastewater Treatment Works

Used water from our baths, washing machines, sinks and toilets, together with 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.

Supply and Demand

The rise in (a) population (b) the building of new towns and industry and(c) water-based pass times, have all created an increasing demand 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 extraction, treatment, distribution and disposal of water is expensive and effects the environment. Therefore, we all need to use water wisely.

You can ask for one of our free water audit leaflets for either the home, school, business or agricultural premises and work out how your usage compares to the average.

You will be surprised at how much water you actually use.

Leaflets, which provide advice on how to save this precious resource, are also available.

Business strategy

An overview of our vision and strategic objectives is shown below. There are 10 strategic objectives grouped under four themes.

Stakeholder	Vision	Themes	Strategic Objectives
Customers Colleagues Shareholder Regulators	To be a valued and trusted provider of one of Northern Ireland's most essential services; an organisation our customers and staff are proud of	Customer	1. Putting customers first: - meet our customer promises - provide value for money 2. Continually improve our customers' experience
		Colleagues	3. Be customer focused through teamwork 4. Promote a safe and motivational working environment 5. Enable our employees to reach their full potential by supporting staff through training and development
		Compliance	6. Provide high quality drinking water and safely return wastewater to the environment 7. Support the economic, social and environmental health and wellbeing of Northern Ireland 8. Plan for extreme weather events
		Cash	9. Deliver our agreed service outputs and financial targets 10. Manage a controlled and sustainable business

Find out more about our business strategy within our business plans prepared as part of the Price Control process:

www.

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

Key Performance Indicators

Key Performance Indicators (KPIs) are used to measure performance against our strategic objectives.

Theme	Headline KPI	Target 2012/13	Actual 2012/13	Target 2013/14
Customer	**Supply interruptions** - number of properties experiencing unplanned and unwarned interruptions (expressed as a percentage of households) in excess of: (%)			
	> 6 hours	0.939	**1.282** **(1.067 excl. severe weather)**	0.908
	> 12 hours	0.202	**0.319** **(0.125 excl. severe weather)**	0.194
	> 24 hours	0.010	**0.190** **(0.008 excl. severe weather)**	0.010
	Telephone contact			
	Calls not abandoned (%)	99.00	**98.45**	99.00
	Calls not all lines busy (%)	99.90	**100.00**	99.90
	Customer satisfaction (score out of five)	4.70	**4.54**	4.70
	Sewer flooding - number of properties removed from the 'at risk register by Company action'	20	**66**	23
	Leakage (million litres per day)	168.00	**161.75**	169.00
Colleagues	**Health and safety** – number of lost time accidents (3 day)	8	**6**	7
Compliance	**Water quality at the tap*** - mean zonal compliance - (%)	99.7	**99.80**	99.7
	Wastewater quality* – percentage of population equivalent (%)	96.5	**98.61**	97.20
	Pollution incidents* - number of high and medium pollution incidents attributed to NI Water	48	**18**	46
Cash	**Operating margin** (%)	34.5	**34.5**	To be replaced by an operating profit target

* Calendar year target

Achieved target

Failed target

Under construction

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See ***Appendix A*** for a full listing of our KPIs including an explanation for any areas of underperformance. Targets are set at the beginning of each Price Control period.

Performance highlights

The focus for 2012/13 continued to be on our **core business** – the delivery of the most cost efficient and high quality drinking water and wastewater services possible within our current business delivery model.

Building resilience

We have undertaken a complete overhaul of our procedures to respond to major incidents and have upgraded our call answering systems and website. This work required considerable input from across the organisation and our key stake-holders. Our resilience is further supported through the mutual aid protocol now in place with other local utilities.

Improved levels of service

Our customers continue to benefit from record levels of service. Drinking water and wastewater compliance is at some of the highest levels ever in Northern Ireland. Customers have also seen improved response times to calls and complaints and lower levels of leakage.

The removal of properties at risk of sewer flooding remains a key area of focus – we have internal and external historical flood reporting capability in place from April 2013 to better plan our capital investment. This will help to alleviate the problems faced by

Trevor Haslett, Chief Executive

We are now in a much **stronger position to respond** to severe weather events such as experienced in March 2013.

Our wastewater **compliance** is the **highest ever in Northern Ireland** having continually improved over the last 7 years.

In 2012/13 we **bettered** our **leakage reduction target** by **6.25 million litres per day**, saving water equivalent to around two Olympic sized swimming pools each day.

areas which have experienced flooding events such as Sydenham.

The electricity supply failures during the severe winter weather in March 2013 did however impact on the levels of supply interruptions, albeit mitigated through the mutual aid protocol with local utilities. Our continued investment in the watermains improvement programme will assist in reducing levels of supply interruptions.

Operating more efficiently

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; reducing operational contractor costs and continuing our Voluntary Early Retirement and Voluntary Severance schemes.

Protecting our 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) for drinking water catchments to provide a more environmentally sustainable way of improving water quality. 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.

We **reduced** our **every day running costs** by **£12m*** in 2012/13 through our continued focus on cost control.

* Based on an approach used by the Utility Regulator.

Pollution incidents are at a **record low level**, with 18 incidents recorded against a target of not more than 48 incidents.

Our **commitment** to the protection of the natural environment is further demonstrated by the continued **accreditation** of our Environmental Management System under ISO 14001.

Major March Snowfall

Spring officially commenced on the 20 March and in 2012 it brought balmy warm weather and temperatures of up to 20 degrees. What a difference a year makes, when early on Friday 22 March it started snowing across Northern Ireland and didn't stop for twenty four hours. The snow was accompanied by severe winds and the results were catastrophic for the electricity and roads network.

At the peak of the incident over 130,000 homes were without power and many people were left without electricity for over 72 hours. Those in remote locations were hit hardest with 18ft snow drifts in places like the Glens of Antrim completely cutting off roads for several days.

Widespread loss of the electricity network caused serious problems for NI Water as we lost power to some major works and a host of Service Reservoirs and pumping stations across the Province. Back-up generators kicked in, in our larger works and mobile units were deployed to smaller locations to provide power. The problems were compounded by lack of road access to some pumping stations and service reservoirs due to snow drifts, which had lost power, which meant operatives on the ground couldn't physically get to them or check the reservoirs were still in supply.

A Category 3 incident, managed by a Category 1 incident team, was called on the Friday and teams were on the ground throughout the weekend working with Northern Ireland Electricity and other agencies to restore power to our works and ensure customers remained in supply. At the peak of the incident around 600 properties were without water and teams on the ground worked extremely hard in very difficult conditions to restore water and distribute bottled water. The vast majority of customers had their water restored by Monday morning.

NI Water's Director of Customer Service Delivery commented: *"I want to thank everyone who worked so hard throughout the incident to support NI Water's response to the Power Interruptions. I know many of you battled the elements to get to work and also to restore water and look after our customers. You put our "Customers First" and did NI Water proud. Thank you."*

A tracked digger clearing the Road to Slimero Service Reservoir

Tankered Water in Straid Village

NI Water van temporarily impeded by the snow fall

Creating a safe 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. This contributed towards an attendance level of 96.8%.

We received the **ROSPA Gold award for health and safety** for the third consecutive year.

ROSPA is the Royal Society for the Prevention of Accidents.

Regional Development Minister Danny Kennedy (left) and Trevor Haslett (right), NI Water Chief Executive, inspecting pipes as NI Water announce that they have successfully reached the 1,000km landmark on its PC10 £90m Water Mains Improvement Programme, exceeding the target set by over 100km.

Looking forward

The focus for 2013/14 will continue across the above areas to support delivery of PC13 and planning for PC15, including the development of a future organisational model.

I would like to thank the Board and my management team for their support during 2012/13 and all of the staff for their continued commitment, drive and enthusiasm to deliver improved levels of service to our customers.

Trevor Haslett
Chief Executive
26 June 2013

We worked with a **range of stakeholders** to reach **agreement** on the regulatory outputs, efficiencies and capital investment for **PC13**.

Our marketplace

Water and wastewater industry

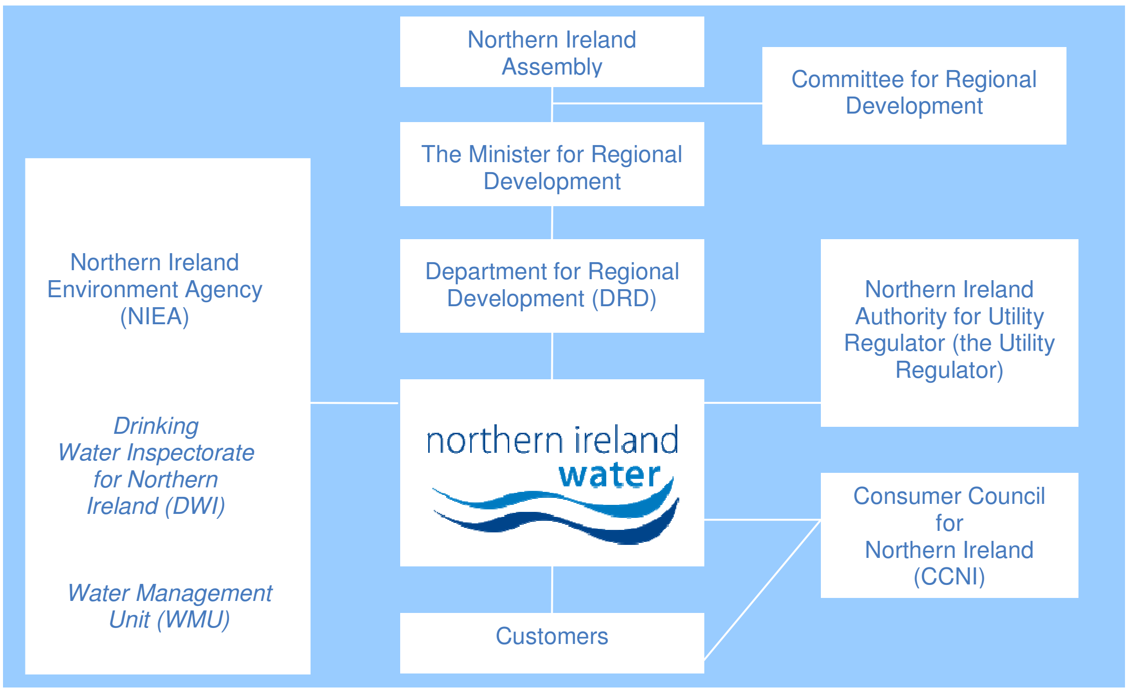
NI Water is **one of 22 providers** of water and sewerage services **in the UK**.

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[6]. 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.water.org.uk/



Water industry structure in Northern Ireland.

[6] NI Water is classified as a Non Departmental Public Body (NDPB) for public expenditure purposes.

Role of Government

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

We work to deliver the agreed **rate of return** for the investment made by the DRD.

We are also focused on securing growth to the **Regulatory Capital Value**[7] as a result of investing efficiently and in the areas of highest priority.

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Read more about the Regulatory Capital Value.

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

See the latest Social and Environmental guidance issued by the DRD at:

http://www.drdni.gov.uk/index/water_policy.htm

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/

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

Utilities United

The severe weather in March 2013 put to the test a mutual aid protocol set up among Northern Ireland's main utility companies. It is believed this approach in Northern Ireland is the first of its kind across the United Kingdom.

It has been over a year since new structures were put in place by the Chief Executives of BT, Northern Ireland Electricity, NI Water and Phoenix Natural Gas to identify ways in which the companies could provide mutual support and aid to each other during periods of extreme weather or other unforeseen situations.

Trevor Haslett, Chief Executive of NI Water, explained:

"Although all of our companies require specialist skills to repair our networks, we have been able to identify a number of areas where we can work together for the mutual benefit of our customers in Northern Ireland. In particular we have looked at shared resources such as people, materials, equipment, transportation vehicles or access to buildings."

Heavy snow and strong winds in March damaged utility networks across Northern Ireland and affected electricity, water and telecoms services to thousands of customers.

Alex Crossan, BT Managing Director Networks, reflected:

"Although we had carried out a simulation, March's storm was the first time we used the mutual aid protocol for real. Our plans worked well and we were able to share equipment and manpower to speed up repairs to the overhead telecoms network in some of the worst affected areas".

Experts believe that extreme weather across the UK and Ireland is becoming more commonplace and local Northern Ireland Executive Ministers have commended the utility companies for progressing a more formal process for working together in such instances if appropriate.

Energy Minister Arlene Foster said:

"I very much welcome this initiative as a pragmatic and practical approach to prepare for emergencies, no matter what may cause them. The combined breadth of expertise between these companies will ensure that the impact of disruption to the services they provide is minimised for customers, particularly those considered most vulnerable during an emergency. It is an interesting approach to mutual aid which other organisations may wish to consider."

Photo: DRD Minister Danny Kennedy and DETI Minister Arlene Foster with Alex Crossan, Director, BT, Peter Dixon, Chief Executive, Phoenix, Joe O'Mahony, Managing Director, NIE and Trevor Haslett, Chief Executive, NI Water

Regional Development Minister Danny Kennedy said:

"I commend the proactive efforts of the utility companies in coming together to share their knowledge and resources to further improve the vital support they deliver to all of us, often in very severe weather conditions."

The Chief Executive's group has also set up several sub-groups with senior representatives from each company, covering: Operations, Stakeholder Communications and Customer Communications.

NIE vehicle towing an NI Water generator.

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. 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** based on that used by OfWat, the economic regulator in England and Wales. The Price Control (PC10) covered the three year period to 31 March 2013.

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**. The efficiency gap with the most efficient water and sewerage companies in this comparator group (the frontier companies) is shown below:

Utility Regulator
ELECTRICITY GAS WATER

The Utility Regulator is responsible for **safeguarding customer interests** through securing value and quality outcomes for customers whilst ensuring that NI Water can finance its activities.

www. http://www.uregni.gov.uk/

See the latest Cost and Performance Report on NI Water at:
http://www.uregni.gov.uk/uploads/publications/Cost_and_Performance_Report_2011-12.pdf

The operating cost **efficiency gap** to the most efficient English and Welsh water and sewerage companies is calculated at **31.7%** in 2011/12. The gap to the average of these companies is **24.8%** in 2011/12.

Operating cost efficiency gap.

Year	2007/08	2008/09	2009/10	2010/11	2011/12
Gap to frontier	48.7%	43.2%	39.7%	38.1%	31.7%

PC13 (2013-15)

PC13 is a **relatively short (two year) Price Control** period to align with DRD's funding to 2014/15. It also allows the DRD to develop a Long Term Water Strategy which will inform NI Water's **more strategic approach to PC15**.

NI Water published its PC13 Summary Business Plan in August 2012 and then provided a response to the Utility Regulator's PC13 Draft Determination in November 2012. The Utility Regulator published the PC13 Final Determination in December 2012 which was accepted by NI Water in February 2013. We published our **PC13 Monitoring Plan** at the end of March 2013 to outline our commitments to customers for the PC13 period.

Find out more about our Price Controls:

www.

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

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**. The NIEA parallels the Environment Agency in England and Wales and the Scottish Environment Protection Agency.

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

www.

http://www.doeni.gov.uk/niea/

See the latest drinking water quality reports at:

http://www.doeni.gov.uk/niea/drinking_water_report_2010_-_october_2011.pdf

Visit to Castle Leslie Integrated Constructed Wetland WwTW

NI Water staff together with staff from Monaghan County Council, NIEA, Rivers Agency, DRD, DARD and the Utility Regulator.

NI Water representatives and various Stakeholders visited the Castle Leslie Integrated Constructed Wetland (ICW) Wastewater Treatment Works on Thursday 7 June 2012.

NI Water is always searching for innovative approaches that will help achieve its long term assets strategy, which is to deliver capital investment solutions that:

- Provide legislative compliance;
- Focus on customer needs;
- Are sustainable (socially, economically, environmentally); and
- Mitigate against and adapt to climate change.

One such approach is the use of ICW instead of conventional wastewater treatment plants. The man made wetlands (ICW's) utilise a series of shallow ponds full of wetland plants to filter and clean the raw sewage prior to discharge.

To promote the approach, NI Water's Assets Strategy Team arranged a visit to the Castle Leslie ICW Wastewater Treatment Works at Glaslough, Co Monaghan. Present were sixteen staff from NI Water and stakeholders such as DRD Water Policy Division, Rivers Agency, the Northern Ireland Environment Agency (NIEA), DARD, and Utility Regulator.

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. DWI parallels the Drinking Water Inspectorate in England and Wales and the Drinking Water Quality Regulator in Scotland (DWQR).

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.

Consumer Council for NI

The Consumer Council for NI is a statutory body which **represents the interests of water consumers** and parallels the roles undertaken by the Consumer Council for Water in England and Wales and Waterwatch in Scotland. Its functions include providing our customers with **advice and information**; investigating **complaints**; and undertaking **research** such as surveys of consumers' views.

The Consumer Council

http://www.consumercouncil.org.uk/

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

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

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**. The DRD provides a public expenditure subsidy in lieu of domestic charging[8].

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

Good working arrangements have been developed through the **Water Stakeholder Steering Group** (WSSG) structure which brings together key stakeholders including the DRD. This has facilitated the **formulation and prioritisation of the investment programme** within the limits of public expenditure allocations.

The DRD is preparing a **Long Term Water Strategy for Northern Ireland**. The Water Strategy will inform PC15.

[8] Water and sewerage charges are levied on non-domestic customers.

expenditure allocation to NI Water. This situation has since been **partially addressed by a Memorandum of Understanding** (MoU) between the DRD and the Utility Regulator which sets out the process for adjusting the PC10 Final Determination to reflect the public expenditure allocations.

Business environment

Economic conditions

The weak economic conditions in Northern Ireland have had an impact on the financial performance of NI Water. **Consumption levels have decreased** during 2012/13, leading to an **income reduction** from customers with measured and unmeasured water supply.

It is predicted that Northern Ireland's economy will show relatively flat spending growth in 2013/14. This would suggest that **demand should remain relatively constant**.

We have seen **input cost inflation during 2012/13** with Retail Price Inflation (RPI) rising above 3%.

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**.

The economic downturn has resulted in an increased level of metal theft. We are part of a **Northern Ireland Utilities Group**, in conjunction with Crimestoppers, which promotes public awareness, and are involved in the National Fraud Initiative.

NI Water supports campaign to crush metal theft

NI Water's George Ong (Left) with Minister for Justice David Ford and representatives from the utility sector at the launch of the metal theft campaign

Over the last year, NI Water has seen around one incident per week where metal thieves or vandals have damaged our equipment.

To combat this growing issue, the Company has teamed up with Crimestoppers and other utility companies to raise awareness in local communities of the safety risks and community impact of this crime.

George Ong, Head of Corporate Governance said, ***"In the last twelve months we have seen increasing incidents of metal theft from our treatment works and depots across Northern Ireland.***

"These have had direct impacts on local communities when vandals have caused interruptions to the water supply and left equipment in dangerous states.

"We are encouraging anyone who sees thieves or vandals tampering with our equipment to report it to NI Water on 08457 440088 or to Crimestoppers."

Customers

Providing a quality service to our customers

L-R: Liam Mulholland, Head of Customer Services, NI Water, Antoinette McKeown, Chief Executive, The Consumer Council, Tracey Maherg, Executive Director of Business Solutions, Invest NI and Minister for Regional Development Danny Kennedy MLA, at the launch of the 'Water Champions' campaign.

Service delivery

We provide all of the public water and sewerage services in Northern Ireland. We monitor our service very carefully to make sure our customers receive a high quality service.

Sewer flooding (internal)

Preventing sewage coming into customers' homes is a **key area of focus**. 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.

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**.

On average NI Water deals with around **21,000 blockages** each year to the network and it is estimated that **65% are caused by inappropriate items** being put into the sewers. NI Water spends in the region of **£1.5m per annum clearing blocked sewers.**

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

Sewer flooding (external)

We work in partnership with the Rivers Agency and Roads Service 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.

Flooding returns to Belfast

Cleaning up after the flooding in Belfast

A period of intense rainfall on the evening of Wednesday 27th June 2012 resulted in a number of serious flooding incidents across Northern Ireland with the Belfast area one of the worst affected. Working alongside our colleagues in other agencies including Belfast City Council, Roads Service and the Rivers Agency, we were able to co-ordinate the operation which followed the flooding and provide information and practical help to those residents who were affected. This included the deployment of staff and contractors to assist with the clean-up operations, providing help and assistance with assessing damage to enable appropriate compensation claims.

Praising the work of all NI Water staff involved in the response to the flooding, our Chief Executive, Trevor Haslett said:

"I along with the Board want to also express our deep felt gratitude for once again, rising to the challenges faced by another incident. While we examine the aftermath of what happened and assess how our infrastructure performed, it is worth noting that I also received personal thanks for our work on the ground from some residents and a plea for resolving reoccurring flooding problems. We are already committed to investigating each area.

Networks Sewerage Invest in Latest Technology

Networks Sewerage has invested in two new Recycling Jetting Units along with a new fleet of fully equipped CCTV vans.

The successful acquisition took place after a pilot study was carried out looking at the most efficient and effective methods for proactive sewer maintenance.

The new units recycle the water they use during jetting operations, maximising time spent working on site and minimising time spent off it taking on supplies of fresh water. That means it's time and cost-efficient, and fuel-efficient too.

These units complement a new fleet of fully equipped CCTV vans which have been purchased over the past year.

The Operators

The pilot study demonstrated that existing staff had the skills and abilities as well as the desire to take on the new plant and equipment. The combined skills of the CCTV operators and the sewer jetting operative give Networks Sewerage the ability to focus on a proactive approach to managing the sewer networks, and a rapid response and resolution of customer complaints when the need arises.

The way forward

The acquisition of the new plant and equipment provides a dedicated resource focused on improving the functions activities. The equipment will develop activities to operate on a planned, proactive basis including: identifying and delivering maintenance programmes, understanding other flooding causes, investigating repeat problems, locating and identifying defects for repair, capital investment needs, providing quality services to other parts of the business and delivering targeted customer awareness programmes. There will also be a focus on the emergency needs of the business and driving down operational expenditure by reducing blocked sewers to help meet efficiency targets.

A key focus of the new direction will be on awareness and guidance to customers, both domestic and commercial, by delivering key education messages in conjunction with the Communications Team. New guidance books, calling cards and promotional materials have recently been developed to help this process.

The acquisition of the recycling jetting units and CCTV equipment will play a vital role in delivering improved operating procedures and ultimately the service to NI Water's customers.

Done Diggin' in Greyabbey

NI Water has completed the pipelaying element of the Greyabbey Flood Alleviation Scheme. The entire project involved a £1.3 million investment to upgrade the sewerage infrastructure in the village and essential improvement work at Greyabbey Wastewater Treatment Works to improve wastewater services for our customers in the area.

Pupils from Greyabbey Primary School join Davy McGrath to mark the end of the pipe laying in Greyabbey

Low water 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.

Our **Geographic Information Systems** (GIS) have been developed to allow our call centre staff to identify customers with known low pressure issues.

We also maintain a list of properties at risk of receiving their water supply below a certain pressure. Our **mains rehabilitation programme** is reducing the number of properties with low pressure.

In 2012/13 we **removed 297** properties from the register of properties at risk of receiving **low water pressure**. The total removed over the PC10 period was **842** properties, leaving around 1,400 on the register.

See our information leaflets - *Water Supply Services for Domestic Customers* & *Looking after water in your home - The Consumer's Guide*

http://www.niwater.com/information-leaflets/

NI Water exceeds watermains target

NI Water has successfully reached the 1,000km landmark on its PC10 £90 million Water Mains Improvement Programme, exceeding the target set by over 100km. This project has involved replacing watermains across Northern Ireland with more modern, durable pipes, and in just under three years it has put in place pipes which would stretch from Belfast to Luxembourg!

The project will dramatically improve the quality, reliability and security of the water supply across Northern Ireland, while also reducing leakage. In addition, the improvements to the existing infrastructure will assist in accommodating an increase in housing or other development. The second phase of work will take place over PC13, and the target for this period is to lay approximately 445km of new Watermains. The majority of the work under this phase will be focused around South Tyrone, Fermanagh, Counties Down and Antrim.

Interruptions to water supply

We aim to provide enough water for everyday things such as drinking, washing, cooking, running your 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.

Reducing 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 **economic level of leakage**. We are working to develop this long term leakage target.

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.

The level of unplanned supply interruptions experienced by customers over 2012/13 was impacted by **electricity supply failures** during the period of severe weather in March 2013. The 12 hour and 24 hour targets would have been achieved if the impact of the electricity supply failures was removed.

We are introducing new **leakage management software** in 2013/14. This will improve the quality of information and assist in leakage reduction.

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

In 2012/13 we bettered our **leakage reduction** target by **6.25 million litres per day**. This out performance against the target saved water equivalent to around two Olympic sized swimming pools each day.

On average, each of us use **150 litres of water daily**.

Read more about the UK's water footprint at http://www.waterfootprint.org/?page=files/UnitedKingdom

Saving water

Water is a precious resource. We are committed to encouraging people to save water. As part of our water efficiency plan we:

- **Reduce the number of leaks** on our pipes;
- **Promote appliances, facilities and practices** that help save water;
- Raise awareness of consumption through **metering** of commercial customers; and
- **Educate** schools and communities on water efficiency.

Only around **4%** of the drinking water supplied to our homes is for **drinking**. Some **30%** is flushed down the **toilet**.

Our 2012/13 education initiatives improved consumers' water efficiency measures, resulting in a saving of around **0.2 million litres** of water per day.

Page 86
Read more about our Education Programme.

Providing clear accessible information to customers

We are committed to providing high quality services to all our customers. We produce a **range of leaflets** on the different services we offer to our customers. These are available in various formats including Braille and large print.

Codes of Practice

We have published a series of Codes of Practice - information booklets outlining the **services we provide**, our commitment to **dealing fairly** with customers, and where and how to get **advice and help**. The Codes of Practice are reviewed by CCNI and approved by the Utility Regulator.

Our Codes of Practice contain advice on **Bogus Callers** - making customers aware of what they should do if they are in any doubt when someone calls at their door claiming to be from NI Water.

www.

http://www.niwater.com/codesofpractice.asp

It was all 'Flow' at the Balmoral Show!

Crowds flocked to the NI Water stand at the Balmoral Show where they learnt all about water efficiency, what not to flush and water for health.

The impressive NI Water stand, complete with a rotating tap, featured many of NI Water's key messages including water efficiency where customers were given a shower timer and encouraged to take the challenge of getting in and out in 5 minutes.

Other messages included water for health which encourages people to drink between the recommended 6-8 glasses of water per day. NI Water helped customers do just that with their free water bottle. While having fun, some serious messages were given in relation to damage caused to the environment and beaches through the flushing of inappropriate items with the 'flush / don't flush' magnet game.

NI Water staff promoting Water Efficiency

NI Water staff passes on the 'Water for Health' message

NI Water staff with Jim Nicholson MEP

NI Water staff presents a young customer with a water bottle

Vulnerable customers

We have increased the number of individual customers on our **Customer Care Register** to **2,675** during 2012/13.

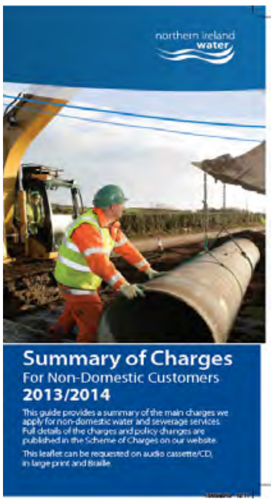
Billing

Water and sewerage charges for domestic customers are currently deferred, being met by Government subsidy. Charges for commercial customers are in place, supported in part by Government subsidy. Our charges are reviewed annually by the Utility Regulator and published in our Scheme of Charges.

We achieved the 5 day target response time for billing contacts (DG6) at **100.09%** against the target of **99.90%**.

Actual performance is greater than 100% due to the basis on which the target is measured. Contacts outside of the period can be included in the calculation.

NI Water's Summary of Charges:



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

The Regional Development Minister, Danny Kennedy MLA and Trevor Haslett, Chief Executive, NI Water highlighted the new 'Two Step Pipe Check' message at the launch of the Winter Preparations Campaign at Parliament Buildings on Monday 22nd October 2012.

Following on from the successful, 'Don't Wait.Insulate' campaign of 2011, the new message reinforced the call to check that pipes are properly insulated. The Minister said: **"Last year was a mild winter, so the urgency to ensure property is protected may slip to the bottom of the 'to do' list. But the threat of a cold winter and burst or frozen pipes is very real."**

At the height of the winter of 2010/11, over 80% of the water lost from burst pipes was on customers' private pipes. Burst pipes can cause serious damage to peoples' property as well as being a risk to water supplies. The advertising campaign was rolled out through various media outlets including TV, radio, print and outdoor advertising. An information leaflet was also distributed to households in Northern Ireland. Chief Executive, Trevor Haslett, commented:

"NI Water wants to provide the best possible services to the people of Northern Ireland. The winter of 2010/11 saw areas of our business struggle to cope with the extreme conditions. However, we have used the experience to strengthen and improve systems."

Accurate measured bills are central to customer account management and we had a series of performance targets for meter reading and measured billing in 2012/13:

- **97.5%** of bills to be based on actual meter reads – we achieved **98.7%**; and
- **95%** of bills to be issued within 5 working days of a meter reading (both including and excluding any readings that require investigation). We successfully achieved both targets; **97%** excluding readings requiring investigation; and **95%** including readings requiring investigation.

We continue to work on billing improvements for our customers. In 2012/13 this included both a **new bill format** which will be easier for all customers to understand and the implementation of a **new case management system** to improve our management and turnaround time of customer billing related contacts. Improvements to billing options available for those customers who have multiple sites were also implemented with plans for further improvements in 2013/14.

Customer contact

Substantial efforts have been made to **drive down call volumes**. We met our target of no more than **265,000** calls in 2012/13, receiving around **219,339** calls.

We are helping customers **understand** their bills and **reduce billing queries** – in 2012/13 we made a **14% reduction** in the number of times our customers needed to call us about their bills.

A new **web self-serve portal** has been developed over 2012/13 and will be available to customers in 2013/14. The portal will include an account overview, billing and consumption histories, the ability to pay bills and to change account details online.

Agricultural customers - we have introduced 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 and we have expanded this role during 2012/13 to include other customer groups.

Further service improvements, especially the introduction of a new **self-service solution**, will continue to reduce call volumes and improve the level of service being provided to customers.

We achieved our 2012/13 targets on 'calls not receiving an engaged tone', **100%** against a target of 99.90%. However, we failed to achieve our 'calls not abandoned' target due to a significant increase in unexpected calls received during the June 2012 flooding events, giving a performance of **98.45**% against a target of 99%.

We introduced a **High Volume Call Answering (HVCA)** solution in 2012/13. HVCA has been developed to handle substantial unexpected call volumes and also to provide information to customers on their areas.

Page 24
Read more about what we are doing to address flooding.

Engaging with our customers

Customer surveys

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

The surveys were completed in quarters 2 to 4, achieving an overall average score of **4.54 out of 5**. The performance was **below the target** of 4.70. Further analysis will be undertaken in 2013/14 to identify any learning points.

During 2013/14, we will be introducing 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 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.

Engaging with customer representatives

During 2012/13, we worked in consultation with CCNI on the introduction of a **new bill format** which is designed to be easier for customers to understand.

Water Champions' Award - Save Water and Save Money

The Consumer Council is calling on all business and farm owners interested in saving money and helping the environment to get involved in 'Water Champions', a campaign launched on 25th October 2012, in partnership with NI Water and Invest Northern Ireland.

The cornerstone of the campaign is the 'Water Champion Award' which will be granted to businesses or farms that show how they have saved money on their water bills, reduced their water usage and put in place water efficiency measures. Businesses that have made significant savings will be awarded the Water Champion Gold Award. Each successful entrant will receive a 'Water Champion' or 'Water Champion Gold' certificate awarded by the Consumer Council, and supported by NI Water and Invest NI, for their premises, and the Water Champions logo for their website.

Antoinette McKeown, Chief Executive of the Consumer Council said:

"The Consumer Council is delighted to be launching 'Water Champions'. This campaign combines the strength and resources of the Consumer Council, Invest NI and NI Water. By working in partnership this campaign has the potential to bring significant financial benefits to businesses and farms and help reduce their environmental impact."

Minister for Regional Development Danny Kennedy, MLA added:

"Everyone has a responsibility to use water wisely and economically. The Business Connect campaign is a great example of how stakeholders can work together to promote and improve water efficiency conservation in Northern Ireland. This excellent campaign has a very real potential to bring significant financial benefits to businesses and farms and help reduce the impact they have on our environment."

For more information visit: **www.consumercouncil.org.uk/water/ champions-/**

L-R: Liam Mulholland, Head of Customer Services, NI Water, Antoinette McKeown, Chief Executive, The Consumer Council, Tracey Maherg, Executive Director of Business Solutions, Invest NI and Minister for Regional Development Danny Kennedy MLA

We will continue to work with CCNI throughout 2013/14, in our shared endeavours to enhance the customer experience. This will include consultation on tasks linked to our customer transformation projects and the annual complaints assessment.

As part of our customer facing improvement programme, we worked closely with CCNI on the new **format of our bills**. The new format was introduced over the first quarter of 2013/14 to all our metered and trade effluent customers.

Getting it right first time

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.

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

Customer complaints

We are working to reduce the number of written complaints we receive by identifying and addressing the root causes of written complaints; and reducing the number of holding responses issued.

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

We achieved the 10 day target response time for complaints with a performance of **99.78%** against the target of **98.5%.**

Colleagues

Building capability at NI Water

NI Water mentors involved in supporting the apprentice training programme.

Creating a high performance culture

Our employees are key to our business success. Central to achieving business objectives and the organisation's vision, is the requirement to create a high performance culture. Our **Performance Management System** (PMS) is used by all employees to set and monitor progress against objectives.

Our employees are encouraged and supported in the achievement of a **range of qualifications** which support NI Water in delivering a **better service to our customers**.

Building talent

At NI Water, we recognise that technical and job specific learning is essential but needs to be continuously and consistently complemented by management, communication and interpersonal skills. We are **committed to the development** of all employees regardless of role and grade.

We have a number of **learning and development programmes** in place for employees which support achievement of personal and corporate objectives. This includes our Management Development programmes aimed at senior and middle managers, and specialist programmes in areas such as Finance and Regulation, and Analytical Services.

We use our dedicated **Learning and Development Centre** at Antrim to deliver a large proportion of our training programmes.

As part of an on-going initiative to **support school and university leavers** in the workplace, we continue to recruit apprentices and graduate trainees. This helps us build and retain talent for the future.

2013 Apprenticeship Programme

On Monday 7 January 2013, 12 new apprentices commenced employment with NI Water. This shows again, an on-going commitment by NI Water to continue to recruit young enthusiastic new people into our business.

The 12 apprentices will begin their NI Water careers in the following functions:

- Waste Water 4
- Networks Water 4
- Leakage 4

As part of their 2 year apprenticeships, they will complete an extensive training programme which will include Health & Safety training at Antrim Learning and Development Centre. They will also complete an accredited CABWI Level 2 Diploma in Water Engineering and also a CABWI competence based QCF qualification, level 2 in their relevant areas. Each of the apprentices have been assigned a dedicated work companion from the area they are working in. We wish all the apprentices the very best as they begin their new careers with NI Water.

New Generation of Civil Engineers

Six new Civil Engineers have recently joined NI Water following an extensive recruitment programme and will be based with the Engineering Procurement and Asset Management Directorates.

The Graduate Scheme involves NI Water recruiting a new generation of Civil Engineering Graduates into the business to help deliver the capital investment programme into the future. The Graduates will be formally trained with The Institution of Civil Engineers training scheme in preparation to become a Chartered Civil Engineer in around five years' time.

Each graduate will have a Delegated Engineer and a Supervising Civil Engineer assigned to act as mentors to help develop each individual's knowledge and skill base, which is necessary to attain Chartered status. Four Graduates are placed within Engineering Procurement and two Graduates are now in Asset Management.

The four Graduates within Engineering Procurement will be directly involved in delivering Capital Projects within the various water and wastewater delivery teams and will gain experience in feasibility, design and construction.

The two Graduates within Asset Management will be involved in both Strategic Asset Management and Asset Performance and will gain experience in the early stages of the capital project lifecycle and help develop a programme of capital projects for progressing forward.

The new graduates pictured with Chief Executive Trevor Haslett

Engaging employees

Making our goals a reality depends on the commitment and expertise of our employees. We are determined to ensure that NI Water becomes a great place to work. We conduct **employee surveys** in order to assess employee engagement levels across the organisation and undertook our latest survey in June 2013.

The active involvement and engagement of employees is key to delivering individual, team and corporate goals. 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.

Work is underway to form an elected **Employee Forum**. The Employee Forum is designed to provide an effective two way feedback mechanism to share information, listen to **employee feedback**, and promote clarity and **under-standing** between manage-ment and employees.

Creating a safe working environment

We continue to **focus** on making NI Water a **safe place to work** by working with our employees, trade unions and contractors to reduce accidents in the workplace.

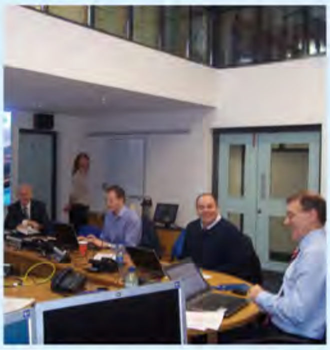
We have a **zero accident ambition**.

Testing our response to a fatal incident

This year we tested our ability to safely and effectively manage a fatal incident on one of our remote waste water treatment sites.

The Safety Advice Centre, who facilitated the test stated that "The response of Northern Ireland Water staff on site, at Bretland House (Telemetry Centre), and Westland House (Incident Command Room) following notification of the incident was observed to demonstrate high levels of commitment and dedication in managing the incident. The resources available were observed to be of very high quality"

The outcome of this test was an Action Plan with 16 actions for the Safety, Health and the Environment Team and Customer Services Delivery Directorate – completion of which will further improve our ability to respond to safeguard the safety of our staff.



NI Water staff in the Major Incident Room during the fatal incident test.

We are also **actively involved** with health and safety professionals in other utility companies, the Health and Safety Executive for Northern Ireland (HSENI) and the Institution of Occupational Safety and Health (IOSH).

One of our **key performance indicators** in this area is to reduce the number of incidents where staff are absent from work for more than 3 days as a result of an incident at, or in connection with, work.

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

We **surpassed** our 2012/13 Health and Safety KPI target of not more than 8 incidents where staff were absent from work for more than 3 days as a result of an incident at work, with **6 incidents** incurred. The Health and Safety KPI target for 2013/14 has been set at not more than 7 incidents.

Gold Award for Health & Safety

RoSPA 20 12 GOLD Award

NI Water is celebrating for the third time after winning the prestigious Gold Achievement Award in the Royal Society for the Prevention of Accidents (RoSPA) Occupational Health and Safety Awards 2012.

The RoSPA Occupational Health and Safety Awards scheme is the largest and longest running programme of its kind in the UK, recognising commitment to accident and ill health prevention.

The Gold Achievement Award was presented to NI Water on 20 September 2012. NI Water's Safety Health & Environmental Manager said:

"This award demonstrates the continuous commitment by all NI Water staff for their own personal responsibility for safe working behaviours. The outcome of this diligence results in an exemplary organisational safety performance with a conducive safety culture. All of which has culminated in a year-on-year reduction in workplace accidents. The award also recognises the vital role and valued contribution of our staff representatives as we all aim to make NI Water a safe place to work."

David Rawlins, Awards Manager at the Royal Society for the Prevention of Accidents (RoSPA), a safety charity with a 95-year history, commented:

"The RoSPA Awards programme provides well deserved recognition for the winners and spurs on other organisations to raise their standards of accident and ill health prevention. We congratulate Northern Ireland Water on its success and encourage it, and all our other winners, to remain committed to safety and health, an approach that is well recognised to be good for workers and the bottom line."

(L-R) Event organisers Bill Gowdy NI Water, Dermott McCurdy NI Water, Mark Cassidy of BSG Civil Engineering are pictured with actors from Dramanon (Dramanaon actors pictured in high visibility jackets).

Health and Safety Comes first at NI Water Workshop

NI Water in association with BSG Engineering recently organised a Health and Safety workshop with a difference at NI Water's Training Centre in Antrim. This workshop sought to promote an awareness of behavioural responsibility amongst NI Water site management staff and contractors working on NI Water capital projects. A number of practical demonstrations of typical scenarios encountered on construction sites were led by actors from Dramanon, who are a leading provider of drama based learning and corporate training in the UK. The scenarios acted out by Dramanon centred on what motivates individuals to make decisions and take actions with the consequences that can arise due to poor communication, planning and the management of health and safety issues on construction sites, and the workplace in general.

Compliance

Investing in our health, environment and local economy

Silent Valley Reservoir, County Down.

Looking after our water sources

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.

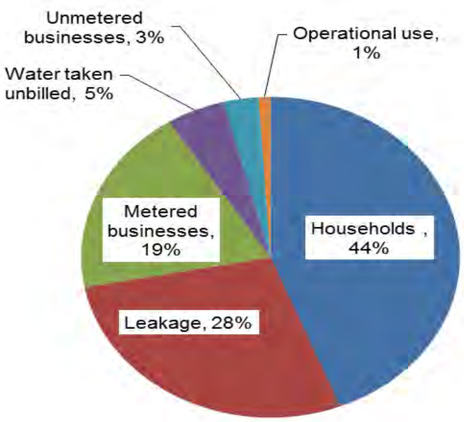
Over **99%** of our raw water comes from **surface water sources**. Around 50% of our raw water is abstracted from Lough Neagh.

Households across Northern Ireland use around 150 litres per day. A **1% reduction** in **household use** could reduce demand by around 2.6 million litres per day.

Managing demand for water

Our Water Demand Management Strategy is focussed on **reducing water** taken from the **environment** by managing **leakage** and **consumption**. The chart[9] below shows the demand for the 560 million litres of water put into our network each day.

Sources of demand for our water.



Pages 29 to 30
Read more about our work to reduce leakage and educate customers on water efficiency.

[9] Breakdown of water demand from NI Water's 2010 Water Resource Management Plan.

Alan Crilly visiting Fofanny WTW during the recent CIWEM joint Northern and ROI Branch study tour, at which NI Water launched the 2012 WRMP to stakeholders.

2012 Water Resource Management Plan Published

At the end of March 2012 the NI Water Board authorised that the 2012 Water Resource Management Plan (WRMP) be published. This marked the successful culmination of 3 years work which involved stakeholders from many parts of the business working together with Engineering Consultant Atkins.

The Water and Sewerage Services (Northern Ireland) Order 2006, requires that every five years NI Water prepare a 25 year plan for how water resources and trunk mains will be developed and managed. The WRMP studies the water resources available (supply) and compares against the expected water demand. Where inadequate spare capacity is predicted, the most cost effective solution to maintain an acceptable 'supply demand balance' is scheduled to inform NI Water's Capital Works Programme, as illustrated on the diagram below.

Figure 1: Supply / Demand Balance

The WRMP found that the significant investments made on the water supply and distribution systems over the past 10 years have led to significant improvements in the security of water supply to the customers.

These improvements have been reflected in the WRMP which found that, at a water resource zone level, NI Water currently has sufficient raw water sources and treatment facilities to achieve the required supply / demand balance. Maintaining this over 25 years whilst continuing to meet the rising customer demands confirmed that it is necessary to progress the Castor Bay to Belfast Strategic Trunk Main (which should increase the capacity of the existing supply from Castor Bay into Belfast from 22 to 50 Mld), complete the Castor Bay to Newry link, construct two minor bulk transfer mains, and also invest in further reducing leakage.

The WRMP process does not provide all the answers on where investment is needed, rather it forms part of a wider process. This wider 'investment cycle' includes recommendations from Drought Planning, Emergency Management, Operational Planning and Water Demand Management with each of these identifying capital investment requirements, together building the overall drinking water capital investment plan.

Paddy Brow, NI Water's Head of Asset Strategy, said:

"Work on this 2012 WRMP has illustrated the benefits delivered by the significant investment since 2001, and the significant progress made by NI Water to successfully drive down leakage. Congratulations to all staff who have worked so hard to achieve this, with the support of our supply chain partners. However there is still much to be done to increase the capacity of the infrastructure and make it more resilient – work that NI Water looks forward to being able to progress in the PC13 and PC15 periods through the continued support of the DRD and the Utility Regulator."

Improving our water quality

Drinking water quality levels

We work hard to provide our customers with high quality drinking water. We carry out over **110,000 tests every year** to make sure our water is clean and safe.

The 2012[10] compliance levels for drinking water at the customer tap are at **some of their highest levels**, with a Mean Zonal Compliance (MZC) of 99.80%.

The compliance for 2012 demonstrates the continued high quality drinking water provided to the people of Northern Ireland and **exceeds the requirement of the DRD's Social and Environmental Guidance** of 99.7%.

Find out more about drinking water quality:

See the latest drinking water quality reports at:

http://www.doeni.gov.uk/niea/drinking_water_quality_in_northern_ireland_2011.pdf

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

Disinfection Policy

We have developed a Disinfection Policy and Disinfection Statements for all of our water treatment works and submitted these to the DWI and the Health Authorities.

Lead Strategy

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

We have built on good relationships with the **Northern Ireland Housing Executive** and we have **prioritised Vulnerable Customers** to improve lead compliance.

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

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 a **Lead Strategy** and input into the DRD's Long Term Water Strategy

Drinking water safety plans

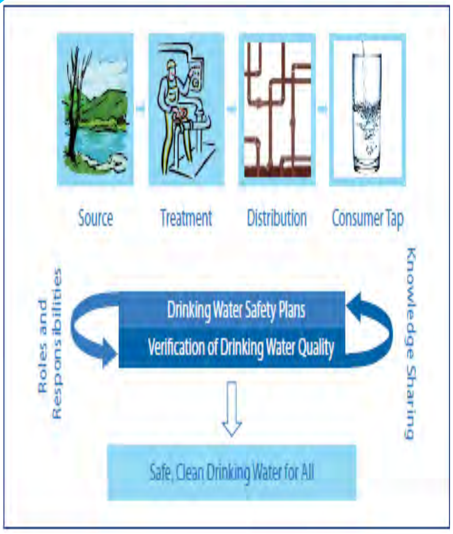
We use Drinking Water Safety Plan's (DWSP) to proactively **highlight investment needs** for those water supply systems which are likely to fail any parameters, including taste and odour. We have **identified 6 water supply systems for in-depth studies** over 2013 to assist us in planning appropriate investment in the future.

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.

Our laboratories are Audited by the DWI, the NIEA, the United Kingdom Accreditation Service and our Public Private Partnership (PPP) partners.



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

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

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

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

Laboratories Accreditation

During a very long week in February 2013, both of Analytical Services laboratories were assessed by the United Kingdom Accreditation Service to ensure that we were operating in conformance with ISO/IEC 17025 and DWTS.

The assessment team were extremely pleased with the standards shown and that Analytical Services continues to demonstrate a commitment to providing a quality service. They also commented on the level of performance showing a year on year improvement which highlights a good quality ethos within our team. The analytical teams at both sites showed a strong desire to maintain a very high level of quality and reliability of the data, with a keenness to implement improvements

The UKAS team applauded the staff for their commitment and dedication as well as their diligent approach and enthusiasm when being witnessed carrying out procedures.

Thanks must go to all members of staff on both sites for their continuing commitment, ensuring another very successful report.

Last year's audit was so good that we didn't think we could improve on it – but we have!

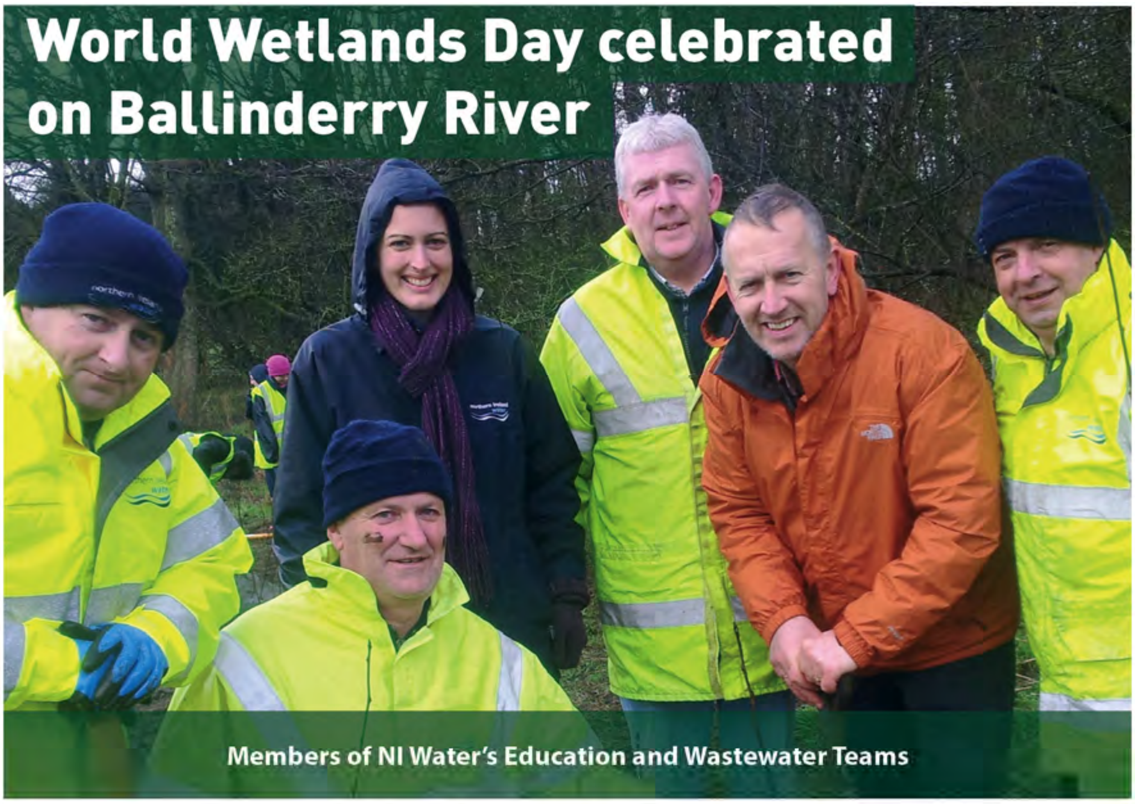
A member of NI Water's Analytical Services Team undertaking sample analysis.

Treating our wastewater

Wastewater services

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.

Our wastewater compliance is the **highest ever seen in Northern Ireland**.



Members of NI Water's Education and Wastewater Teams

Ballinderry Rivers Trust, NI Water, WWF NI and local school children came together to celebrate World Wetlands Day in February 2013 by taking part in a river action day at Cabin Wood on the banks of the Ballinderry. To support World Wetlands Day the Education and Wastewater Teams carried out a clean-up of the River. A river walk was followed by hedge planting along the river, using native hedgerow trees supplied by Cookstown District Council, as part of a Lottery Funded project to restore ancient hedgerows across Northern Ireland.

NI Water's Outreach and Learning Officer commented, **"It was encouraging to see so many young people and local groups taking part in the Ballinderry River Action Day, highlighting the role everyone has to play in taking care of and appreciating our wetland areas."**

Wastewater quality

We **achieved the target** for the calendar year 2012[11] of 96.5% of the population served by compliant wastewater treatment works.

[11] 2013 actual performance not yet available as measured on a calendar year basis.

Improving our bathing waters

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

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. For the purposes of the Blue Flag awards, the increased compliance requirements under the revised Directive will be used for the 2013 season onwards.

Find out about the revised Bathing Water Directive:

www.

http://www.doeni.gov.uk/niea/water/quality/bathingqualityni/new-bathing-water-directive.htm

Buckets of fun on Newcastle beach!

Budding sculptors, architects and those who simply thought they would try their hand at building sandcastles appeared on Newcastle beach recently armed with buckets and spades. While building control may have questioned some of the final masterpieces, a fun filled afternoon was had by all. Before the Sandcastle competition got underway, NI Water volunteers carried out a beach clean-up.

A professional sculptor set the standard with his 'toilet' image, which was fun to look at but also contained a very serious message.

NI Water's Environmental Education Manager, explained:

"While having a great day out, we took the opportunity to highlight the importance of keeping our beaches tidy. It is the perfect time to raise awareness of our 'Bag it, don't flush it' campaign. This is basically educating everyone on what can and cannot be put down the toilet. Items such as nappies, wipes, sanitary items, razors and cotton buds are commonly found washed up on the shore. People are often genuinely shocked when they realise the damage they are doing without even realising it."

Enjoying the sand castle competition in Newcastle

Reducing our pollution incidents

NI Water recognises the damage that can be caused to our environment through water pollution incidents. **We are committed to reducing the number of our pollution incidents** through our Pollution Reduction Strategy and Action Plan.

We hold Pollution Prevention Control (PPC) permits for 31 wastewater and water treatment sites to regulate sludge thickening and dewatering activities. The main focus now is on complying with odour conditions set for each site. Other waste activities within the organisation are managed through waste management licences and exemptions.

There were **18 high and medium severity pollution incidents** attributed to NI Water in 2012, against a target of no more than 48. The target for 2013 is no more than 46 pollution incidents.

Our **Drainage Area Studies** have assisted in **prioritising investment to reduce pollution incidents** from our sewer network.

Investing in our water and wastewater infrastructure

Investment in Northern Ireland's water and sewerage infrastructure is essential in order both to meet key **environmental standards** and to deliver **high quality services** to customers.

The provision of water and sewerage services is a **capital-intensive business**. Our network of water mains and sewers extends to over 26,000 km and 15,000 km respectively. Water resources, water treatment works, pumping plant and wastewater treatment works need substantial structures, mechanical and electrical plant and instrumentation.

The average planned investment over PC10 was around £165 million per annum and a similar level of investment is planned for PC13. The company spends around **£80 million a year on maintaining** the current assets. Around a further **£85 million a year** will be 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 **£162m** of capital investment was delivered during 2012/13. This included the completion of **12 Wastewater Treatment Works**, remediation of **38 unsatisfactory intermittent discharges** and laying approximately **375km of new and replacement watermains**.

£162m based on UK GAAP excluding grants and contributions.

Around **43%** of the capital investment in 2012/13 was targeted at **water projects** while **57%** was targeted at **wastewater projects**.

Minister Welcomes 100th Upgraded Site

Regional Development Minister Danny Kennedy, NI Water's Chief Executive Trevor Haslett and members of NI Water's Engineering Procurement Team

Regional Development Minister Danny Kennedy has announced that 100 sites have been completed under NI Water's Rural Wastewater Investment Programme. The programme, which has been specifically designed to upgrade rural wastewater treatment systems serving populations of up to 250 people, has been running since 2008, and by the end of March 2014, will have seen an NI Water investment of approximately £30 million.

Welcoming the completion of 100 sites under the programme, Danny Kennedy said: **"NI Water's Rural Wastewater Investment Programme was set up to deliver widespread refurbishment of some of the 900 minor wastewater works that span the length and breadth of Northern Ireland, and I am delighted to see that the project is progressing well with the achievement of the '100 sites' milestone. It is a testament to the team working on the project that it has also made 30% capital efficiencies over the last four years. This means that NI Water is delivering 3 sites under the programme for the cost of 2. Each project represents a significant investment in modernising wastewater treatment in rural areas to bring about environmental benefits for local communities, and I look forward to continued progress on this essential project."**

£7.7m Investment in Keady Area

Deputy Lord Mayor of Armagh Sylvia McRoberts, Trevor Haslett and Minister Kennedy at Clay Lake WTW

Minister Kennedy, Bill Gowdy, Deputy Lord Mayor of Armagh Sylvia McRoberts and Trevor Haslett at Keady WwTW

The NI Water Project Team at Clay Lake WTW

The NI Water Project Team at Keady WwTW

Regional Development Minister, Danny Kennedy, viewed progress on the £2.7 million upgrade at NI Water's Clay Lake Water Treatment Works and the £5 million investment programme to upgrade the existing wastewater treatment facility at Keady, Co. Armagh.

The £2.7 million project at Clay Lake Water Treatment Works will meet local demands and ensure that drinking water quality for Keady and the surrounding area meets stringent EU standards. The project has been on-going since April 2011 and is scheduled to be completed in 2013/14.

During the day, the Minister also visited Keady to mark the progress of work to complete a £5 million upgrade to Keady Wastewater Treatment Works. The new works will bring environmental benefits to the area as well as meeting National and EU requirements.

Trevor Haslett, Chief Executive of NI Water added: *"The £2.7 million investment in Clay Lake Water Treatment Works and £5 million investment in Keady Wastewater Treatment Works are both part of NI Water's overall focus on providing an essential infrastructural investment programme."*

"This investment in water and wastewater services is good news for customers in the Keady area. Both of these plants will meet the water and wastewater needs of the growing local population and ensure compliance with all current National and European environmental regulations. The completion of the upgraded wastewater treatment works at Keady will also have a positive impact on the local river water quality."

£3.5m Carmoney WTW Upgrade Complete

Carmoney Water Treatment Works outside Eglinton has undergone a £3.5 million upgrade designed to bring a 21st century infrastructure to the plant.

Customers in Carmoney and the wider East Londonderry area will benefit from increased security of supply and drinking water quality.

Trevor Haslett, Chief Executive of NI Water added:

"NI Water is continuing to deliver the best ever drinking water quality and the upgrade completed at Carmoney is just one example of the many projects being undertaken to improve services to our customers and deliver a modern 21st century infrastructure to Northern Ireland. The improvements made at the plant will also ensure that it operates more efficiently and will continue to meet NIEA and European standards."

Farrans Construction was the contractor for this project with AECOM Design Build Ltd providing design and technical support. (AECOM provided the M&E equipment whilst Farrans were their Civil JV partner).

Regional Development Minister Danny Kennedy, Alderman Mary Hamilton, and Trevor Haslett Chief Executive of NI Water take a tour of the recently completed upgrade at Carmoney Water Treatment Works along with the NI Water Project and Site Operations Team.

Work completed at Tamnaherin Wastewater Treatment Works

NI Water is pleased to announce that work to upgrade the Wastewater Treatment Works at Tamnaherin, Co. L'Derry is complete. Over £1 million was invested in this upgrade and the Mayor – Alderman Maurice Devenney joined the NI Water team on site to view progress on the improvements. John McGrane, NI Water Project Manager for the scheme said:

"The new plant at Tamnaherin will benefit the local community by improving wastewater services in the area. The modern new processes now installed will 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."

The Mayor of Londonderry Alderman Maurice Devenney added:

"The council welcomes this scheme which will bring significant benefits to wastewater services in the area for customers and will allow for future growth in the Tamnaherin area."

Shearwater Consortium was the contractor for this project with AECOM providing design and technical support.

£4.8m upgrade at Newry Wastewater Treatment Works

NI Water has completed an extensive programme of improvements at Newry WwTW to increase the treatment capacity and improve the odour control at the Greenbank-based facility. Details of the multi-million pound upgrade were given to local Councillors and Greenbank businesses during a presentation facilitated by the Southern Regional College.

Trevor Haslett, Minister Kennedy and Dermott McCurdy on-site at Magilligan

Minister Views Progress at £8m Benone Area Waste Water Treatment Scheme

Regional Development Minister Danny Kennedy visited the Magilligan area to view progress on NI Water's £8m programme of work to rationalise and upgrade the wastewater infrastructure in this popular tourist region.

At the heart of the huge investment is the construction of a 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 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 more about the overall Benone Area Sewerage Scheme and the wider benefits it will bring to the locality, Trevor Haslett, Chief Executive of NI Water said:

"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, will be converted to modern new pumping stations. When the entire scheme is complete these pumping stations will 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."

"An additional benefit of the scheme is the decommissioning and removal of the existing Benone WwTW (which is adjacent to one of the local caravan parks) along with the irrigation field (soakaway) to which it discharges. The existing Benone Vacuum Pumping Station will be refurbished and all flows from this part of the network will be transferred directly to the new Magilligan WwTW."

Due for completion in September 2013, the Benone Area Sewerage Scheme is just one of many projects making up a £3m a week spend by NI Water to deliver a 21st century infrastructure for the whole of Northern Ireland.

£1.6m WwTW scheme at Swatragh

(L-R) Michael Donnelly NI Water, Cllr Paul McLean Chairman of Magherafelt council, Ian Cowden NI Water, Alan Clyde Consent Solutions, Neil Brady and Michael McAlary of NI Water, pictured with Primary 5 children from St John's Swatragh and their teacher Sarah McNicholl

Work completed on the upgrade of the WwTW in Swatragh village. Approximately £1.6 million was invested in this upgrade which will improve wastewater treatment capacity in the area and improve the river water quality in the local Knockoneill River.

Neil Brady, NI Water 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 being 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."**

Cllr Paul McLean, Chairman of Magherafelt Council added: **"The council welcomes this scheme which will bring significant benefits to wastewater services in the area for customers and will allow for future growth in the Swatragh area."**

Consent Solutions was the contractor for this project with RPS providing design and technical support.

A2 Watermains Work Completed Early

Watermains work on the A2 Belfast to Bangor road has been completed four weeks ahead of schedule.

Work on the A2 was a key part of the on-going £2 million investment project to improve and upgrade the watermains network in the North Down area, as part of NI Water's overall £100 million Watermains Rehabilitation Programme.

Commenting on the project, Stephanie McCullagh, Head of NI Water's Watermains Rehabilitation Programme said:

"I am delighted to announce the completion of this work and would like to thank all those involved in helping to ensure the project ran smoothly and finished ahead of time. I would particularly like to pay tribute to the construction teams who worked tirelessly over the summer weekends since June. The work was successfully completed in close consultation and collaboration with North Down Borough Council, DRD Roads Service and the PSNI, much to the benefit of all involved as it minimised disruption. NI Water would also like to thank all road users and local residents for their patience, understanding and cooperation throughout the project. The completion of this project will improve the reliability of the water supply in the area, and also improve drinking water quality."

Pictured are staff from NI Water and Lagan Construction.

Investment planned for 2013/14

Around **£168m**[12] of capital investment is scheduled for delivery during 2013/14. As part of this investment, it is planned to continue with improvements to the water main and sewerage infrastructure in a number of areas throughout Northern Ireland.

We will also complete the Newcastle and Benone Wastewater Treatment Works. These works will continue our programme of watermains replacements and renewals, and sewerage infrastructure upgrades. The wastewater and sewerage work will increase the quality of the water in the receiving watercourses.

[12] UK GAAP based excluding grants and contributions.

Using information to improve performance

Good quality asset data is essential across all areas of our business. It provides the basis for **decision making** on everything from setting our maintenance schedules for individual pieces of equipment to informing multi-million pound investment decisions.

As our business changes and as we seek to **deliver improved customer service** more efficiently we are continuously developing and improving our asset data.

Asset Data Overview

	Corporate Assest Register (CAR) Project	Asset Data Requirements (ADR) Project	Asset Data Acquisition and Improvement (ADAI) Project	Business as Usual
Dates	Oct 2007 – Mar 2009	Nov 2008 – Mar 2010	Nov 2010 – Oct 2013	Ongoing
Delivered by	Asset Information	Asset Information	ADAI Project Team	All of NI Water

Asset data quality – why is it important?

In order to deliver the maximum level of customer service at the lowest sustainable cost, it is essential that NI Water has a detailed understanding of the assets for which it is responsible, where the assets are located and what condition they are in.

When will improvements in asset data quality occur?

Improvements in asset data quality have been underway for a number of years. The Asset Data Acquisition and Improvement (ADAI) project represents the culmination of several years planning and preparation and will ensure that asset data quality is brought to an adequate level.

What is required in order to improve asset data quality and to ensure that these improvements are maintained?

Corporate Asset Register (CAR). This project was a highly significant step in the development of NI Water's asset data management capability. Without this system and its supporting structure (the Asset Data Hierarchy and GIS), it would not be possible to capture and store up-to-date asset data.

Asset Data Requirements (ADR). While the CAR project delivered the necessary systems and structures, it was recognised that significant data quality issues remained (particularly with above ground asset data). Working closely with data owners across the business, Asset Information identified gaps in asset data and recommended solutions.

ADAI.

Following the work conducted through the ADR project, the ADAI project was assigned a number of objectives. The primary objective of the project is to address significant concerns with above ground asset data, while improvements in below ground asset data quality are also important. The project is currently managing a £2.2m contract which will deliver an Asset Inventory of the majority of NI Water above ground facilities (approximately 3,200 ranging from large Water Treatment Works to small Sewage Pumping Stations).

The Asset Inventory contractor will capture accurate asset data and photograph, tag and condition grade the assets. The project team have tried to minimise disruption to operational colleagues during delivery of the Asset Inventory and the active support of Heads of Function, Field Managers and Operatives has been crucial to the success of the project to date.

The ADAI project employs 25 temporary members of staff, with resources split across a number of teams. 10 members of staff are involved in quality assuring asset data returned by the contractor and in building maintenance schedules.

Using innovation to improve performance

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 (RDI) Strategy.** This sets out how technical needs and opportunities are identified, before research and development, or innovation projects, are then initiated.

Over 2012/13, our research, development and innovation programme projects have included:

- Working with Woodland Trust on Woodland creation project within our reservoir catchment areas;
- Developing an Instrumentation, Control and Automation Strategy (ICAT) as the foundation for standardisation of automation systems;
- Pilot projects to evaluate small wastewater pump replacement strategy; and

We further developed 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, **improving drinking water quality and reducing costs.** This has proved to be a success and is to be progressively implemented.

During the year, we carried out a project to determine the cost benefit of providing **increased resilience** to freeze / thaw conditions to our assets.

- 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**) and the Water Research Centre (**WRC**) to provide a collaborative programme of research tailored to suit the needs of the UK water industry.

We also collaborate with and support UK **university research projects** and are a member of Queen's University Environmental Science and Technology Research Centre (**QUESTOR**), an international environmental research organisation based at Queen's University Belfast.

Find out about our research partners:

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

http://www.wrcplc.co.uk/about-us.aspx

http://questor.qub.ac.uk/

Responding to the challenges of 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**.

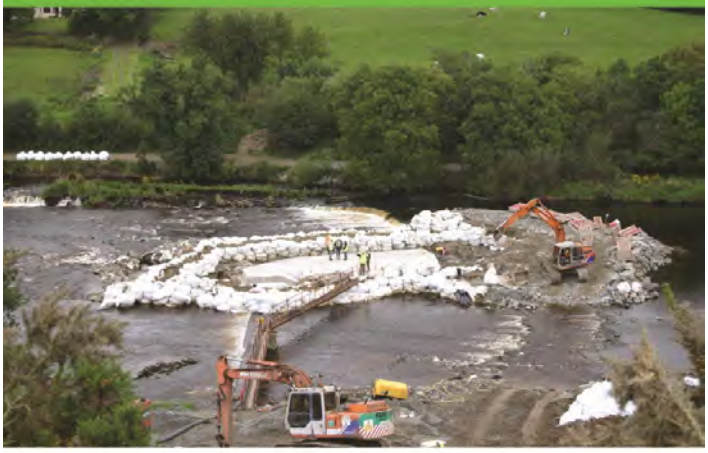
Our **Climate Change Forum** co-ordinates the approach to climate change across the business, including identification of **investment requirements**.

Adapting to climate change

In October 2012 we launched our **Climate Change Adaptation Strategy and Action Plan**. NI Water's strategy is that 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 strategy identifies that adaptation to low river flows may result in further adaptation projects.

£6m River Strule Raw Water Abstraction Project



The £6m River Strule Raw Water Abstraction Project will provide a second abstraction point to serve Derg WTW, and was required as a result of the low flows that occurred in the River Derg in June 2010. This project commenced in 2012 and should be completed in June 2013.

The detailed action plan includes actions to address around **200 potential risks and opportunities** caused by Climate Change. The outputs have been used to inform NI Water and the DRD's input into the **Northern Ireland's first Climate Change Adaptation Programme**, which is being coordinated by Department of the Environment (DOE) and is a cross departmental response to the risk and opportunities identified in the NI Climate Change Risk Assessment. This will be launched by DOE in 2013 in accordance with the requirements of the UK Climate Change Act 2008.

Mitigating our impact

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;
- **Reducing the energy used in aeration** at wastewater treatment works through installation of improved controls and air distribution systems;

Climate Northern Ireland

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

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

We are one of the **largest users of electricity** in Northern Ireland spending around **£34m** each year, of which around **50%** is used to pump water and wastewater.

Includes pumping at water and wastewater stations and pumping across other areas of our infrastructure.

In 2012/13 **around 15%** of NI Water's electricity consumption came from renewable sources. In October 2013 this will increase to at least 20%. The Strategic Energy Framework is targeting that **40%** of Northern Ireland's electricity consumption should come from renewable sources by **2020**.

- **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;

- Piloting the use of wastewater final effluent to be used as a nutrient that will promote the growth of **biomass** (willows) for renewable energy heating;

- **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.

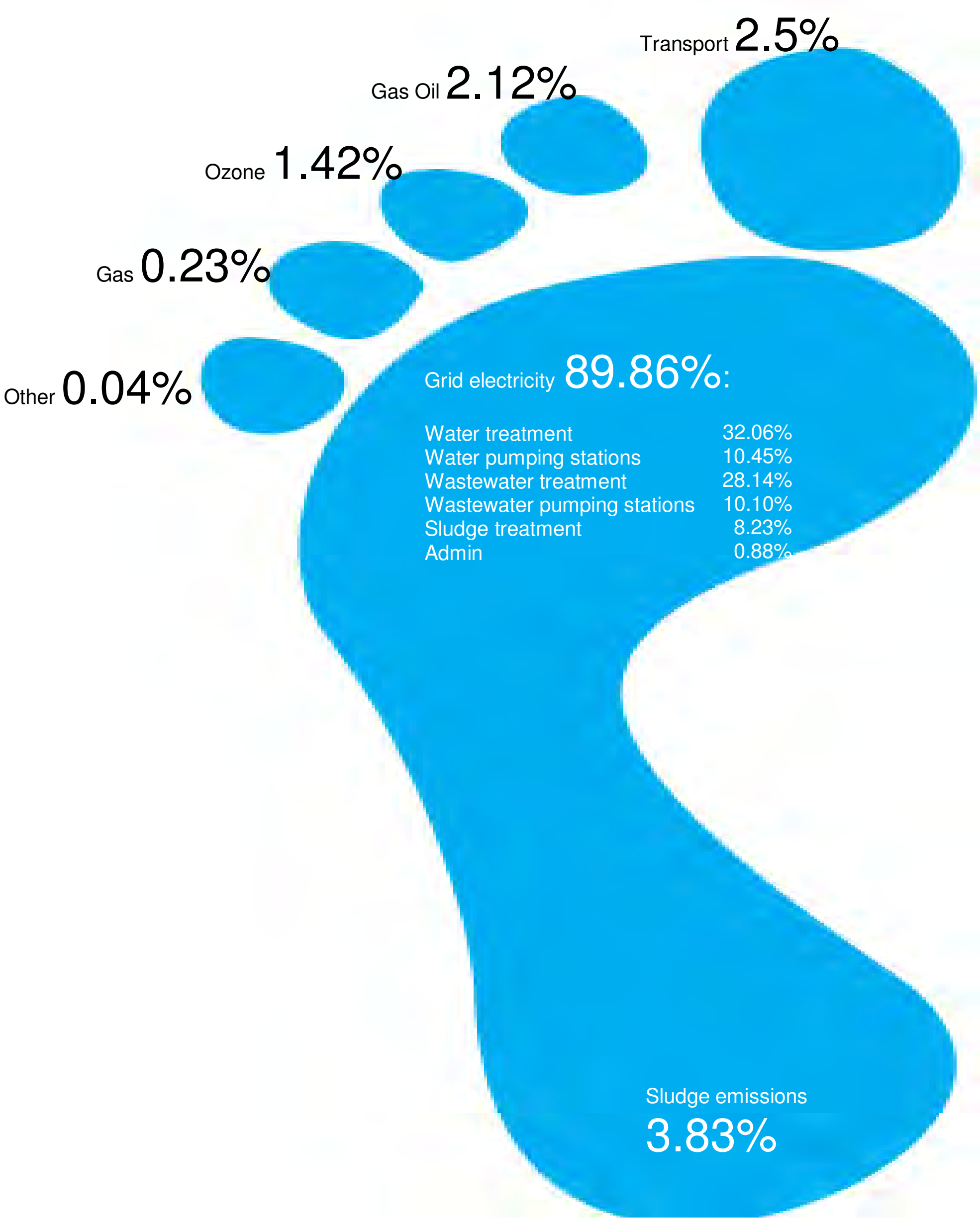
We are accredited under the '**Carbon Trust Standard**'. To achieve the standard, organisations must:

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

CARBON TRUST STANDARD
REDUCING CO2 YEAR ON YEAR

Our carbon footprint[13]

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



13 Percentages are indicative and based on data from the 2011 Annual Information return (AIR11).

Environmental management

The nature of the service we provide means we have a significant **impact on the environment**, from the abstraction of raw water, to the discharge of final effluent from wastewater treatment works. We are fully committed to maintaining and, where possible, **enhancing the biodiversity** of our lands and have developed a **Biodiversity Action Plan** and an Invasive Species Management Plan for the company.

We are **one of the largest landholders** in Northern Ireland owning around **8,600 hectares of land** consisting of reservoir catchment areas for impounding reservoirs, water treatment works, wastewater treatment works, service reservoirs, as well as water and sewage pumping stations.

What is biodiversity?

Biodiversity refers to the **variety** of all living things on our planet and the **ecosystems** they form. It includes the differences between plants, animals and other living species in a particular habitat in which they live.

Our sites include:

709 sites within areas identified as Areas of Outstanding Natural Beauty (AONBs)
89 sites within Areas of Special Scientific Interest (ASSIs)
4 marine nature sites
6 national nature reserves
51 Ramsar (the Ramsar Convention on Wetlands) sites
47 sites which have been identified as special areas for conservation
23 special protection areas.

Michelle McCaughtry, Paul Trueman KWS, Steven Jackson KWS, Dymphna Gallagher NI Water, John Taylor with pupils from Ballycraigy Primary

Trees Spring from Water Treatment Works!

NI Water, Woodland Trust and Kelda Water Services (Alpha) are jointly promoting woodland creation and helping to improve biodiversity at Dunore Point Water Treatment Works in Antrim and Castor Bay Water Treatment Works in Lurgan.

The Woodland Creation Project is aimed at offsetting the carbon footprint of the Water Treatment Works and improving the biodiversity at the sites through the creation of new wooded areas. Approximately 9,000 of a variety of tree species will be planted at the two sites.

Local Key Stage 2 pupils from Ballycraigy Primary School and St Comgalls in Antrim, and Tannaghmore Primary School, Lurgan helped out with some of the tree planting at the sites and participated in a workshop hosted by NI Water's education team on water efficiency and the water cycle.

Dymphna Gallagher, Head of Quality & Environmental Compliance at NI Water said: *"We are delighted to be working with the Woodland Trust. The project has been funded by NI Water's SCAMP NI Project (Sustainable Catchment Area Management Planning for Northern Ireland). NI Water has a number of projects under this initiative, which involve working with non-governmental organisations such as the Woodland Trust."*

We are working in partnership with the Mourne Heritage Trust and the Northern Ireland Tourist Board to **develop local tourism**. We welcomed around 60,000 visitors to Silent Valley in 2012.

We aim to **conserve** and **enhance** the natural environment where appropriate, working to avoid, or minimise, adverse impacts through good land management and operational practice. We recognise that management of the water cycle and associated landholdings provides an opportunity for the wildlife and habitats that occur, or could potentially occur, within these areas to flourish.

We implemented **Sustainable Catchment Area Management Planning** (SCAMP) for drinking water catchments and works closely with the NIEA on the Water Framework Directive Programme of Measures for Northern Ireland.

We **partner** with a range of stakeholders to implement SCAMP and increase bio-diversity. Some of these stakeholders include:

NI Water Team Up with Mourne Heritage Trust

NI Water teamed up with the Mourne Heritage Trust to assist in the repair of paths on the Mourne Mountains. The project is for the provision of erosion control and pathways in the area around Slieve Bainnian in the Mourne Mountains.

Maynard Cousley, NI Water Eastern Area Supply Manager said, *"NI Water is once again delighted to work with the Mourne Heritage Trust in order to facilitate works on the Mourne Mountains. For a number of years NI Water has enjoyed a progressive and fruitful relationship with the Mourne Heritage Trust whilst working together on a number of projects. As NI Water is the largest landowner in the High Mournes, the benefits of the two bodies working closely together are significant."*

Mourne granite stone being delivered by helicopter for use in repairing eroded paths on Slieve Binnian. The stone is being transported from Percy Bysshe quarry nearby.

SCAMP aims to use sustainable catchment management to achieve improved raw water quality and consistency through catchment initiatives, jointly with Non-Government Organisations and the Northern Ireland Environment Agency. SCAMP activities include woodland creation; land management; blanket bog restoration; invasive species management and biodiversity enhancement.

We are interested in hearing what our environmental stakeholders think we can achieve. We hosted a **Stakeholder Forum** in Newcastle, County Down, in February.

The Steering group draws membership from NI Water; NIEA; DARD; Mourne Heritage Trust; Royal Society for the Protection of Birds; Woodlands Trust and Forestry Service.

SCAMP sites across Northern Ireland.

Our commitment to the protection of the natural environment under legislation such as the Habitats Regulations and Wildlife (NI) Order 1985, amended 1995, is demonstrated through our **Environmental Management System** (EMS) which is externally certified to ISO 14001 and covers all of our activities.

NI Water is the **only public body in Northern Ireland** to have earned **International ISO 14001 status**, an international standardisation awarded on the basis of a company's environmental management system.

Cash

…creating value for money through a sustainable service

L-R: John Paul, Oracle, Ronan Larkin, NI Water, Alan Stewart, NI Water, Greg McDaid, Fujitsu and Dennis Badman, Fujitsu at the Silent Valley Mountain Park, County Down.

Introduction

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) business prepared under International Financial Reporting Standards (IFRS); and

Page 128
Read our Statutory Accounts.

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

Page 188
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.

Financial performance (Statutory Accounts)

Statement of Comprehensive Income

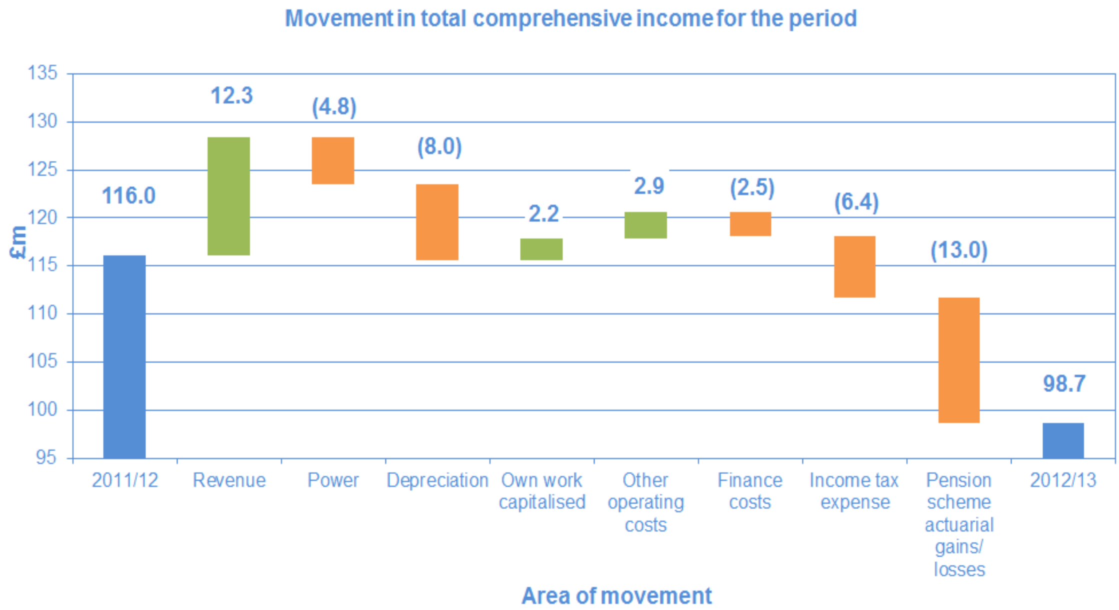
Our Statement of Comprehensive Income as presented on page 129 is summarised below.

The **£110.2m profit** for the year is an accounting profit and provides no additional spending power either to NI Water or the DRD.

Summary Statement of Comprehensive Income

	Year to 31 March 2013 (£m)	Year to 31 March 2012 (£m)
Revenue	**425.6**	413.3
Results from operating activities	**196.5**	192.0
Net finance charges	**(61.1)**	(58.6)
Profit before income tax	**135.4**	133.4
Income tax expense	**(25.2)**	(18.8)
Profit for the year	**110.2**	114.6
Other comprehensive income, net of income tax	**(11.5)**	1.4
Total comprehensive income for the period	**98.7**	116.0

The movement in total comprehensive is summarised below.



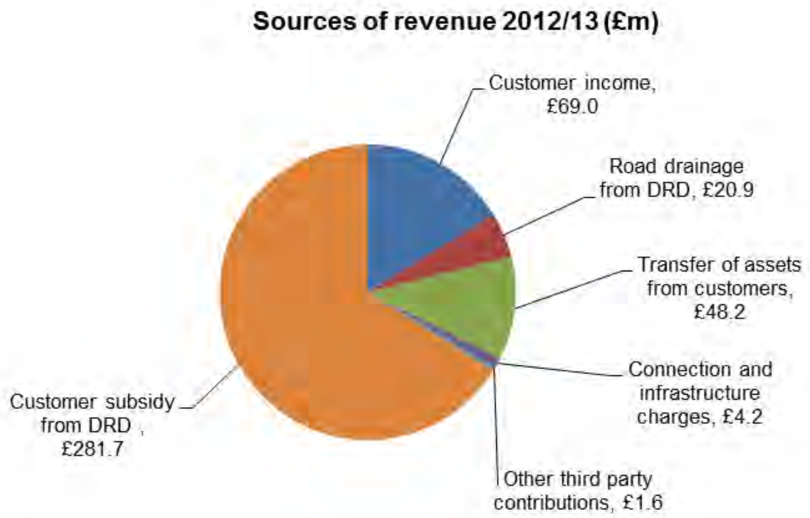
Revenue

Domestic consumers are not charged directly for water and sewerage services. As a result, **NI Water is dependent on government subsidy for over 65% of its funding**.

Revenue was **£425.6m** for the year to 31 March 2013 (2012: £413.3m). Included in revenue was £302.6m (2012: £289.3m) received from the DRD (Subsidy £281.7m; Road Drainage Charges £20.9m) – the **increase in the customer subsidy was primarily driven by retail price inflation**[14].

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 2013/14. In its Programme for Government (PfG), published in March 2012, the Executive gave a commitment that **no new household charges** would be **introduced during the PfG period (2011-15)**.



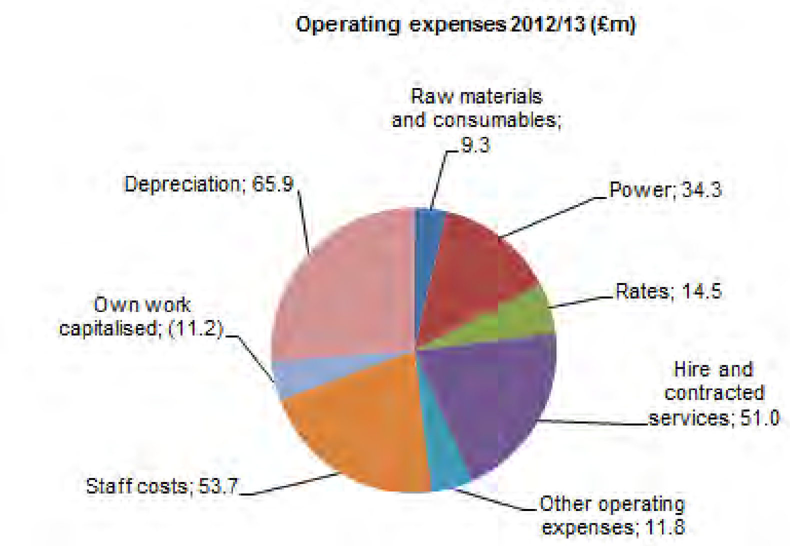
[14] Customer tariffs were based on the retail price inflation in November 2012 at 5.2%.

Operating activities

Operating expenses in 2012/13 of **£229.3m** (2012: £221.5m) increased from last year. The increase primarily resulted from higher capital charges on our increasing asset base and higher power costs. These increases were offset in part by lower staff costs and lower other operating expenses, along with more of our own work being allocated to capital investment.

NI Water is one of the largest users of electricity in Northern Ireland. We spent around **£34m** on **power** in 2012/13, of which around 50% is used to pump water and wastewater.

Page 63
Read more about how we are becoming more energy efficient.



Results from operating activities before interest for the year was **£196.5m** (2012: £192.0m).

Finance income and costs

The net finance costs are primarily due to **interest** on our borrowings of **£40.3m** (2012: £38.2m) and **PPP liabilities** of **£21.8m** (2012: £21.7m) offset by income on our **financial assets** of **£7.3m** (2012: £7.4m).

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 **£25.2m** (2012: £18.8m). The effective tax rate for the year to 31 March 2013 was 18.5% (2012: 14.1%).

We do not currently pay any **cash tax** given the capital allowances available on our capital investment programme. This tax will become payable in due course.

Distributions

The Board will consider a proposal to declare a **dividend of £29m** in July 2013.

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

Capital structure

The Statement of Financial Position at 31 March 2013 as presented on page 128 is summarised below.

Total assets increased by 6.7% to **£2,419.5m** (2012: £2,267.9m).

Our **net debt**[15] figure was **£1,082.8m** at 31 March 2013 (2012: £1,034.6m).

Gearing (the ratio of equity to equity and liabilities) increased to 40.9% (2012: 40.4%).

The **main movements** in the financial position items were increases in **property, plant and equipment** of **£143.6m** (2012: £164.5m) relating to our Capital Investment Programme offset by increases in net debt.

Page 53
Read more about our Capital Investment Programme.

Summary Statement of Financial Position

	At 31 March 2013 (£m)	At 31 March 2012 (£m)
Total non-current assets	**2,364.4**	2,227.0
Total current assets	**55.1**	40.9
Total Assets	**2,419.5**	2,267.9
Equity	**988.4**	916.7
Total non-current liabilities	**1,304.2**	1,212.8
Total current liabilities	**126.9**	138.4
Total liabilities	**1,431.1**	1,351.2
Total equity and liabilities at 31 March	**2,419.5**	2,267.9

[15] Refer to notes 18 and 20 in the Statutory Accounts. Net debt consists of loans of £882.6m (2012: £807.6m) and finance leases of £221.1m (2012: £230.1m) less cash and cash equivalents of £20.9m (2012: £3.1m).

Liquidity

Operating activities generated a net cash inflow of **£203.8m** (2012: £200.5m). Net cash outflows of **£164.8m** (2012: £190.7m) related to investing activities. Net financing activities created a cash outflow of **£21.2m** (2012: outflow of £22.7m).

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 is **broadly in balance** with a deficit value of £5.3m at 31 March 2013 (2012: surplus of £9.5m). This was made up of a total market value of assets of £155.8m (2012: £130.2m) less actuarial value of liabilities £161.1m (2012: £120.7m). The movement to a deficit has been driven by a reduction in the discount rate and an increase in the inflation assumptions leading to the increase in liabilities. This has been partially offset by better returns on the assets than expected.

Investing activities included the acquisition of **property, plant and equipment** of **£166.1m** (2012: £191.1m), proceeds from the sale of property, plant and equipment of £1.2m (2012: £0.3m) and interest received of £0.1m (2012: £0.1m).

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

Dividends paid to the DRD during the year totalled **£27.0m** in respect of the previous financial year.

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

We have invested over **£1.5 billion** in Northern Ireland's water and sewerage infrastructure since our formation in 2007/08.

Over the 2010-13 Price Control (PC10) period we invested around £517m across the following areas (based on UK GAAP nominal prices excluding grants and contributions):

£254m to **maintain** our water and sewerage network and our treatment works;

£121m to support **new customers and additional demand** from existing customers;

£113m on **drinking water and environmental improvements** to protect our local biodiversity; and

£29m to enhance our **customer service** such as reducing internal flooding, low pressure and supply interruptions.

NI Water Celebrates Successful Partnerships

L-R: John Paul, Oracle, Ronan Larkin, NI Water, Alan Stewart, NI Water, Greg McDaid, Fujitsu and Dennis Badman, Fujitsu at the Silent Valley Mountain Park

NI Water hosted an event at the Silent Valley Mountain Park to recognise achievements in developing and improving the computer systems which support key back office Finance, Procurement, HR and Payroll processes.

The company has significantly improved its systems over the last few years and was the first organisation in Ireland to upgrade to the latest Release 12 version of the Oracle e-business suite earlier this year.

The event was attended by representatives from Fujitsu, the company's delivery partner, and Oracle, the software suppliers and was followed by a visit to Fofanny Water Treatment Works. This enabled the team members to see the front line NI Water processes supported by their back office systems.

Ronan Larkin, Director of Finance and Regulation at NI Water was presented with a plaque by Fujitsu to mark the success delivered through the programme of work.

NI Water staff who attended the Oracle recognition event in Silent Valley

Financial performance (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 publication of regulatory accounts also promotes **transparency** across the UK water sector.

The Regulatory Accounts are prepared in accordance with the Regulatory Accounting Guidelines. The Utility Regulator's Final Determination for the PC10 period is prepared on the same basis.

The Regulatory Accounts consist of historical cost and current cost accounts. The split between our appointed and non-appointed business activities is provided in the historical cost regulatory accounts.

Regulatory Capital Value (RCV)

The RCV is the value of the appointed business which earns a return on investment – it is often used by the investment community to determine the **market value of the appointed business**.

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.

Find out about the Utility Regulator's PC10 **Final Determination:**

www.

http://www.uregni.gov.uk/water_investigation/#TEN

Non appointed business activities generated **£5.2m of income** (2012: £5.0m) resulting in a retained profit after deducting associated costs, of £0.8m (2012: £0.8m).

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.

Regulatory Capital value (RCV)

	At 31 March 2013 (£m)	At 31 March 2012 (£m)
Prior year closing RCV per PC10 Final Determination	**1,725.4**	1,555.7
Indexation and other adjustments	**53.3**	76.1
Opening RCV	**1,778.7**	**1,631.8**
Capital expenditure	**159.8**	152.5
Infrastructure renewals expenditure	**29.7**	29.0
Infrastructure renewals charge	**(29.7)**	(29.0)
Grants and contributions	**(4.1)**	(3.6)
Depreciation (including capital grants)	**(51.6)**	(50.5)
Disposal of assets	**(4.4)**	(4.8)
Closing RCV (pre regulatory adjustments)	1,878.4	1,725.4
Regulatory adjustments	(65.6)	-
Closing RCV	**1,812.8**	1,725.4
Average RCV	**1,769.1**	1,640.6

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;

The treatment of asset transfers from customers as income under IFRS created a **'boost' to statutory profits** of **£54.0m** (2012: £53.6m).

- **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.

Page 192
Read more about the reconciliation between the Statutory and Regulatory Accounts.

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 200
Read more about infrastructure renewals accounting.

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 2013 (£m)	Year to 31 March 2012 (£m)
Business improvement programme	**1.0**	1.5
Voluntary Early Retirement / Voluntary Severance schemes	**3.4**	2.9
Freeze / thaw in 2010/11	-	(2.2)
Total	**4.4**	2.2

Efficiencies

Our focus on controlling operating expenditure and working more efficiently contributed towards **operating cost efficiencies** of around **£12m** in 2012/13 (2012: £12m). We are targeting further operating cost efficiencies across PC13 as set out in the Final Determination.

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

http://www.uregni.gov.uk/

See the latest Cost and Performance Report on NI Water at: http://www.uregni.gov.uk/publications/2011_12_cost_and_performance_report

Corporate social responsibility

…supporting communities, the environment and the economy

NI Water's Jane Jackson helps put the finishing touches to the grand sand toilet created during the sandcastle competition, held by NI Water on Newcastle beach to celebrate World Ocean Day.

Introduction

We recognise our role as a valued and trusted provider, **supporting communities**, **safeguarding our environment** and contributing to our **economy** in its daily operations. We also embrace our duty to make sure that our activities and practices are sustainable, transparent and ethical.

Cares Challenge

Our employer supported 'Cares Challenge' programme was introduced in 2011/12 and enables employees to **volunteer** on a range of community projects. Local communities have benefitted from around **1,500 hours** of volunteering.

Pages 23 to 83
Read about our work on corporate social responsibility within the customer, compliance, colleagues and cash sections in the Business Review. See below for some areas of further work on corporate social responsibility.

Changing the way 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 2012/13 the Education Team visited over **9,000 school children**; 84 schools have had classroom based visits; and 48 schools have been visited by the Waterbus. In relation to our own NI Water based classrooms; 8 schools have visited our Silent Valley centre (in the Mourne Mountains) and 7 schools have visited our Heritage Centre in Duncrue Street, Belfast.

Find out more about our education programme:

http://www.niwater.com/educationatniw.asp
p://www.niwater.com/informationleaflets.asp

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.

We launched our **annual schools competition** with this year's theme **"Bogus Callers-Don't Let Them In"**. Pupils were asked to electronically design a calling card warning of the dangers of a Bogus Caller.

NI Water links up with Scout Association

NI Water along with Power NI, Phoenix Natural Gas and NIE were recently involved in presenting utility badges to scout groups from across Belfast who have been leading the way in energy efficiency and water conservation. This follows a pilot project between the Utility Regulator and the Scout Association.

The scheme, which involved four scout groups in the Greater Belfast area, saw the scouts undertaking a range of activities.

Jane Jackson, NI Water's Environmental Education Manager comments:

"NI Water places great importance on educating young people in the vital role water plays in our lives. If we instil good waterwise habits in our younger generation, then it can result in not only them, but the family around them becoming more water efficient."

George Butler, Jane Jackson and Mark Ellesmere with some of the scouts involved in the programme

Representatives from NI Water, NIE & Phoenix with Minister Arlene Foster

Minister Arlene Foster addresses the audience

Supporting local communities

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

NI Water's Keith Haslett with local teachers at the STEM Networking Event

STEM Programme

Colleagues from Engineering Procurement participated in a STEM (Science Technology, Engineering & Mathematics) networking event at W5 on Thursday 14th June 2012. The event aimed to inspire and encourage teachers from post primary schools across Northern Ireland to maximise their use of the STEM Ambassadors Programme – a free resource available to all schools.

Thanks to everyone who participated in the STEM ambassador induction training with W5.

NI Water participates in the Business in the Community **'Time to Read / Time to Count' Scheme** in conjunction with local primary schools. By spending a small amount of time with a child in a local school, our employees are helping the school children to develop an interest in read ing or numbers. A total of **9 volunteers** have been trained and have attended local primary schools, assisting **18 school children**.

We are also working with **local secondary schools** and **local universities** to support students in their development through presentations, mentoring and work placements.

Time 2 Count/Time to Read

Time 2 Count in Victoria Park Primary School

M&E Field Manager with children from Victoria Park PS

The Time to Read/Count programme was launched in NI Water as the first project under the Company's new Volunteering Policy in late 2011. At present there are 10 volunteers signed up to the programme which is a Business in the Community run initiative.

The aim of the programme is to help those middle of the road children who often slip through the educational net; they are not the high achievers, nor are they the special needs students - they are often quietly struggling in a busy classroom, getting further behind. These children can lack confidence, be shy or just need a little extra support. The 'Time To' programme allows teachers to identify children who would benefit from this extra helping hand.

The volunteers attend a school for one hour a week, assisting two children in half hour slots with reading or numeracy through set tasks and games. Time and again volunteers and teachers alike have reported on the dramatic improvement in a child's confidence and interest in learning.

The programme requires commitment from the volunteer and NI Water to enable staff to regularly attend their 'Time To' sessions. However, the benefits have been tremendous and the first year of the programme has been an extremely rewarding one for all those taking part.

The Time 2 Count Programme operates in conjunction with the Time to Read Programme and not surprisingly focuses on numeracy skills.

The purpose of the programme is to offer one to one time with pupils who may benefit from increased confidence when handling, processing and manipulating numerical information. The sessions last 30 minutes and take the form of maths based games, allowing relaxed and informal interaction whilst thinking mathematically at the same time.

Report from NI Water staff member: I started the Time 2 Count programme last February in Victoria Park Primary School, Sydenham, Belfast. Victoria Park PS was one of the first schools to join the Time to Programme some 15 years ago and currently have almost 40 pupils involved in 5 programmes. I joined with two existing volunteers from the Northern Bank and together we offer 12 pupils the opportunity to develop their mathematical skills from year 5 through to year 7. We have just recently re-commenced the new term and are thoroughly looking forward to the year ahead. Mrs Gourley the Principal and teachers of the school are all very enthusiastic and supportive of the programme and the pupils themselves do seem to genuinely enjoy their time and very much look forward to our weekly sessions.

"It's fun to learn using the games" Aimee Year 6

"The games are good fun to play" Josh Year 6

"you don't realise you are learning while enjoying the games at the same time" Carter Year 6

Offering my time through this volunteering programme has proved very rewarding indeed. It has helped provide a sense of achievement by enabling me to pass on a little of my own enthusiasm for mathematics to young developing minds, and hopefully encourage them to appreciate the benefits of maths as an invaluable tool and not something to be feared.

Vision for Silent Valley becomes reality

The beauty of Silent Valley in the heart of the Mournes has been further enhanced by the addition of new facilities which will create a visitor experience to remember.

Officially launched by the DRD Minister, Danny Kennedy, MLA, and the Tourism Minister, Arlene Foster, MLA, the Park now offers visitors a full range of facilities, including an interactive visitor's centre which highlights the hardships, challenges and sacrifices made by the workers of the time. Voice recordings of the original workers and a replica of Bignian Tunnel also help transport the visitor to a bygone era.

Minister Danny Kennedy MLA said:

"While the Silent Valley Reservoir is a place many people may associate with providing drinking water, these new facilities help put this area of outstanding natural beauty and engineering achievement on the map as a compelling visitors' attraction.

"This project is an excellent example of government agencies and public bodies working in partnership to provide a unique day out which will increase visitor numbers and attract tourists to the Co Down area."

Sean Hogan, Chairman of NI Water said:

"NI Water was delighted to work in partnership with other bodies to allow the beauty of this site to be developed and enhanced for visitors. Our primary focus is managing the site, including the reservoir, which is the largest in Northern Ireland, holding over 13,000 million litres of water and stretching over 2.5 miles, providing water to over 200,000 customers on a daily basis.

"However, it really is a hidden treasure. The new facilities will enable the visitor to truly appreciate the beauty of the Valley while the centre itself captures a time gone by and allows us to glimpse into the life of workers during the years of the Reservoir construction."

This project received investment from NITB and SOAR under the Rural Development Programme. Other organisations involved are the Mourne Heritage Trust and Newry & Mourne Council.

New information leaflets detailing the facilities available at the Park are available on the NI Water website by visiting **www.niwater.com/thesilentvalley.asp**

NI Water chairman Sean Hogan with Martin Carey (CEO of Mourne Heritage Trust) presents the winner Claire Fitzpatrick from Holy Cross PS who selected the winning name of the new sculpture as the 'Mourne Hand'

Pictured (L-R) with Holy Cross Primary School, Kilkeel pupils Claire Fitzpatrick and Lucy Colgan are David Small (Deputy Secretary DARD), Arlene Foster MLA (Tourism Minister), NI Water Chairman Sean Hogan and Danny Kennedy DRD Minister

Working to protect our environment

We work with a range of stakeholders to protect our environment.

Working in Partnership with the Woodland Trust

The first project identified is an area just above Killylane reservoir adjoining Ballyboley wood

Staff from NI Water and Woodland Trust on a site visit

NI Water, as a major landowner, has a number of significant drinking water catchment areas where informed woodland creation is being encouraged. There are a number of benefits to the organisation from woodland planting in the appropriate areas in helping achieve its water management and water quality objectives.

The first project identified is an area just above Killylane reservoir adjoining Ballyboley wood (see highlighted map area). This was a former sludge spreading area, and has stood unutilised for a number of years.

NI Water SCaMP NI funding will be used to progress the scheme to plant up areas with native woodland species. The Woodland Trust acted as an agent and sourced a specialist trees contractor.

Staff from NI Water and Woodland Trust visited and scoped out the site on a rather snowy day.

In July 2011 the UK Government launched its first ever carbon certification scheme, the **Woodland Carbon Code**, and announced changes to voluntary greenhouse gas reporting guidelines to include certified projects. Companies can now report certified UK woodland creation as part of their overall carbon reduction strategy, drawing on the carbon the woodland removes from the atmosphere as the trees grow. It is hoped that the Killylane project will be the first project of this nature in Northern Ireland.

Further sites have already been identified for native species planting within NI Water catchments and landholdings. A partnership with Dalriada PPP at three WTW sites namely Dunore Point, Castor Bay and Ballinrees, have identified suitable areas for beneficial woodland creation projects. Work has begun with 'riparian' planting schemes envisaged for areas including the Rivers Roe, Owenreagh and Six Mile Water.

Supporting local charities

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

'Water' Way to Spend World Water Day

WaterAid

DRD Minister Danny Kennedy and local school children add their support to the WaterAid campaign


NI Water's Frank Stewart with some of the MLAs who have pledged support to the WaterAid campaign

To celebrate World Water Day on March 22nd, NI Water teamed up with WaterAid and members of the Stormont Executive to raise awareness of the fact that over 11% of the world's population do not have access to safe, clean drinking water and a further 35% have no access to sanitation.

In Northern Ireland, water is plentiful, and we are lucky that we have clean drinking water on tap and somewhere safe to go to the toilet.

NI Water's Honorary Secretary for WaterAid, explains:

"NI Water provides drinking water to over 800,000 properties every day so we as an organisation realise just how important this precious resource is. Each person on average uses around 155 litres a day but it is often taken for granted and we expect it to be there when we turn on the tap. When it is not, even for only a few hours, we get a glimpse of what it would be like to live without it.

"Unfortunately, 783 million people live without clean water every single day, often resorting to drinking dirty, unsanitary water or walking miles to get just one jerry can for a whole family to use. Preventable diseases caused by dirty water and poor sanitation are the biggest killer of children in Africa, and illness and hours spent collecting water from distant sources keep children out of school and prevent adults from earning a living."

Calling on the public to back the campaign, Minister Kennedy said: "Safe water and sanitation transform lives, improving health and lifting communities out of poverty. Supporting WaterAid is a simple action we can all take to highlight the vital importance of these basic necessities for development. I'll be encouraging my fellow MLAs to show their support."

Mr Kennedy made his pledge of support just days after the United Nations announced that the Millennium Development Goal on water has been reached. An additional two billion people have accessed clean water within the last 20 years.

Trevor Haslett

Trevor Haslett
Chief Executive
26 June 2013

GOVERNANCE

Construction phase at Benone Wastewater Treatment Works in Limavady, County L'Derry
(Image courtesy of Alan Lavery Photography)

Corporate governance

Chairman's introduction

I am pleased to present the Corporate Governance Report for 2012/13.

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 the DRD.

The Board is committed to the principles of good corporate governance as set out in the UK Corporate Governance Code, where appropriate, given our dual status as a GoCo and NDPB.

Seán Hogan, Chairman

Some of the key developments in corporate governance in 2012/13 are as follows:

- substantial implementation of NI Water's Management Statement and Financial Memorandum (MSFM) that came into effect on 1 April 2012;
- improvement in regularity compliance and financial and procurement governance;
- putting in place a more integrated approach to good governance through the development and implementation of NI Water's 'Integrated Governance Framework';
- further improvement to risk accountability and assurance through the implementation of the 'Risk and Assurance Framework';
- 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 through research on best practice 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 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. This includes compliance with the Companies Act and the UK Corporate Governance Code where it applies to NI Water's circumstances.

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

The Company has a Management Statement and Finance Memorandum (MSFM) in place with the DRD to provide further clarity and accountability to our stakeholders.

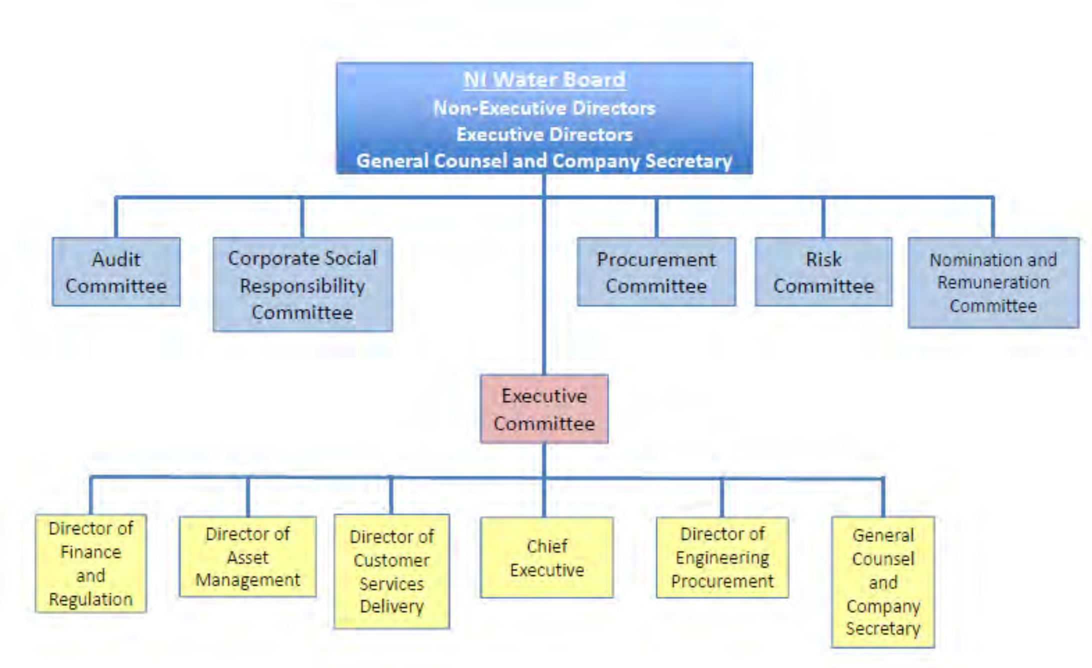
UK Corporate Governance Code

Due to the governance arrangements in place as a result of NI Water being classified as both a Government Owned Company and an NDPB, the Company considers that it does not adhere in full to the following provisions of the UK Corporate Governance Code:

- the remuneration of the Board is determined by the Shareholder, not the Nomination and Remuneration Committee;
- there is no requirement for retirement by rotation and re-appointment of Directors under the Company's Articles of Association. As such, the Directors are not subject to re-election at intervals of no more than three years;
- there was no bonus scheme in 2012/13 for Executive Directors reflecting the public expenditure constraints. This restricts the proportion of the Executive Directors' remuneration which is linked to corporate and individual performance; and
- there is no requirement to hold an Annual General Meeting.

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 the 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. Details of the number of Board meetings, Board Sub-Committee meetings and the attendance of the Directors at those meetings are shown on page 102.

Moroccan Government - Study Visit to NI Water

Moroccan delegates with NI Water representatives

A group of 10 Moroccan delegates from The Directorate of Public Enterprises and Establishments (DEPP) visited NI Water on 7 December 2012 to view the Company's approach to corporate governance, environmental compliance and financial management.

The delegates were accompanied by a representative of the organising body, NI-CO - a not for profit organisation dedicated to the pursuit of building efficient, accountable and sustainable public sector institutions.

The delegation also travelled to London to meet representatives of the All-Party Parliamentary Group on Morocco.

Background

The study visit is part of an EU funded Institutional Twinning Project entitled 'Strengthening the capacity of the DEPP in the areas of Public Private Partnership, governance of state owned companies and financial management of state owned companies'.

The Study Visit

Presentations were delivered at the Antrim Learning and Development Centre by a number of NI Water staff. The delegates were also provided with a tour of Antrim Wastewater Treatment Works.

Follow-up

NI-CO invited NI Water to speak at a conference hosted by the Ministry of Finance, Morocco. Together with the other speakers from the Ministry of Finance, Germany, the sessions centred on the application of Governance Codes and best practice on governance, internal controls and risk management. Around one hundred delegates took part in these sessions.

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. Kevin Steele (Non-Executive Director), who is 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 reviewed the status of the Non-Executive Directors over the year and considered them to be independent in character and judgment. 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 Corporate Social Responsibility Committee, Nomination and Remuneration Committee, and the Procurement 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:

Audit Committee

- Donald Price (Chair);
- Seán Hogan; and
- Jim Stewart, CBE.

Risk Committee

- Jim Stewart, CBE (Chair); and
- John Rae.

Nomination and Remuneration Committee

- Seán Hogan (Chair); and
- Donald Price.

Procurement Committee

- Kevin Steele (Chair); and
- Deep Sagar.

Corporate Social Responsibility Committee

- Seán Hogan (Chair); and
- John Rae.

Report by Don Price, 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 judgments 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 on investigations. In addition, it reviews the effectiveness of the other good governance and internal control policies such as Code of Ethics, Conflict of Interest, and Gifts and Hospitality and recommended the NI Water's 'Integrated Governance Framework' for Board approval.

The Audit Committee holds an annual joint meeting 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, and the Audit Committee with an opinion on the overall adequacy and effectiveness of NI Water's framework of governance, risk management and control.

The Committee evaluated the effectiveness of its own performance and reported to the Board on areas of further improvement for the Board's consideration.

As Chair of the Audit Committee, I have recent and relevant financial experience. I am a Non-Executive Director of the Northern Ireland Tourist Board and was a Non-Executive Director of Northern Bank Ltd (including various subsidiaries) until June 2011. Northern Bank is the principal banker for the Company. Jim Stewart, CBE is Chair of Sentinus, a registered charity and was the Chair of the Northern Health and Social Care Trust until 14 December 2012. Séan Hogan, Chair of the Board[16] and a member of the Audit Committee is Chair of the Agri-Food and Biosciences Institute.

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. Gary Fair, Director of the 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 receives annually 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.

[16] In accordance with Section C.3.1 of the UK Corporate Governance Code 2010, it is acceptable for the Chairman of a 'smaller company' to be a member of, but not Chair, of the Audit Committee.

The Audit Committee reviews the policies for the non-audit services and the framework for the pre-approval of the provision of audit and non-audit services 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 reports 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 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 Government Internal Audit Standards (GIAS), the Head of Internal Audit provided an annual self-assessment of the function's performance to the Audit Committee.

Report by Jim Stewart CBE, Chair of the Risk Committee

The Risk Committee provides oversight on NI Water's risk management framework and strategic risk management. Membership of the Risk Committee consists of two Non-Executive Directors – myself as Chair and John Rae. John is a Water Operations Director at Scottish Water, a Board member of Scottish Water Solutions and a Board member of the Water Regulations Advisory Scheme Limited. 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 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 risk management towards the achievement of the Company's objectives, risk appetite, forward 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 has reviewed strategic and operational risks and the Chair of the Risk Committee provided a report to the Board on a monthly basis on key matters of risk and assurance. A strategic risk management report was also included in the Chief Executive's report to the Board on a monthly basis. The Committee considered the development of NI Water's 'Risk and Assurance Framework' and recommended it to the Board for approval and adoption.

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 effectiveness of its own performance and reported to the Board on areas of further improvement for the Board's consideration.

University of Ulster students discussing their research projects with Jim Stewart, Ronan Larkin, George Ong and Keith Scott

NI Water Shares Experience of Corporate Governance with UU Students

NI Water's Finance and Regulation Directorate is continuing to develop its partnership with the Ulster Business School at the University of Ulster. The objective of this partnership is to gain access to best practice approaches.

Jim Stewart CBE, Chair of the Risk Committee and Ronan Larkin, Director of Finance and Regulation, met with 6 students on the MSc Management and Governance course to share their experience of Corporate Governance within NI Water.

The students were undertaking research projects on various aspects of Corporate Governance. Jim Stewart shared his experience as a Non-Executive Director and provided the students with an insight to the thinking of the Risk Committee on each of the areas covered by the research topics. Ronan Larkin provided the students with a perspective of the role of an Executive Director across each of the research topics.

The students also met with the Shareholder and Water Policy Unit in the DRD to gain further perspectives on the research topics.

NI Water was provided with copies of the research reports which will be used to further improve on NI Water's approach to Corporate Governance.

One of the students was awarded the First Trust shield for the best research project. The research was on the operation of Dual and Unitary Board Structures within NI Water. The student wrote to say *"a sincere thank you for all help and assistance in producing this project, if it wasn't for your help this project would not have been possible in the time period given. Northern Ireland Water Ltd was an interesting and helpful organisation to collaborate with for my project, and was a pleasure to research for."*

The interfaces with the students and academic staff were managed on a day to day basis by George Ong and Keith Scott.

Report by Seán Hogan, 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 Chief Executive, Company Secretary, Head of Human Resources and other external advisers also attend the Nomination and Remuneration Committee meetings at the invitation of the Committee Chair. The Committee met five times in the year.

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.

Further information on the activities of the Nomination and Remuneration Committee is given in the Directors' remuneration report on pages 120 to 125.

Report by Kevin Steele, Chair of the Procurement Committee

The Committee's terms of reference were reviewed during the year and amended to reflect the fact that the Committee reviews 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 number of large procurements as well as a number of Procurement Guidance Notes. The Procurement Committee met four times in the year.

Report by Seán Hogan, Chair of the Corporate Social Responsibility (CSR) Committee

During the year, the Committee reviewed and amended the CSR reporting model, received value statements from relevant parts of the organisation and continued support of the Cares Challenge Volunteering project among other matters. The CSR Committee met four times in the 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:
Trevor Haslett* – Chief Executive;
Ronan Larkin* – Director of Finance and Regulation;
George Butler* – Director of Asset Management;
Sara Venning* – Director of Customer Service Delivery;
Mark Ellesmere – General Counsel and Company Secretary; and
Bill Gowdy – Director of Engineering Procurement.

*Executive Director.

Further details on our Executive Committee can be found at:

www.

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 pages 96 and 100. 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 120 to 125.

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 year, the Board and its Committees carried out an evaluation of their performance. Each member of the Board and Committees answered a questionnaire on his / her perception of the composition, operation and effectiveness of the Board and Committees and on the performance of the relevant Chairperson.

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.

Going Concern

NI Water is subject to economic regulation rather than market competition. The Company's charges are reviewed annually by the Utility Regulator. The members, taking all relevant factors into account (including the fact that as an NDPB, NI Water is subject to public expenditure constraints), consider that NI Water will have adequate resources to continue in operational existence for the foreseeable future. The accounts are therefore prepared on a going concern basis. Further information on going concern is contained in note 1(c) to the financial statements on page 133.

Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2012/13 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	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Seán Hogan	12	10	4	3	4	3	-	-	5	5	-	-	1	1
Donald Price	12	11	4	4	-	-	-	-	5	5	-	-	1	1
Kevin Steele	12	12	-	-	-	-	4	4	-	-	-	-	-	-
Deep Sagar	12	11	-	-	-	-	4	3	-	-	-	-	-	-
John Rae	12	12	-	-	4	4	-	-	-	-	4	4	1	1
Jim Stewart, CBE	12	11	4	4	-	-	-	-	-	-	4	4	1	1
Trevor Haslett	12	12	4	2	4	3	4	3	-	-	4	3	1	1
Ronan Larkin	12	12	4	4	-	-	4	4	-	-	4	4	1	1
Mark Ellesmere	12	11	4	3	-	-	4	3	5	5	4	4	1	1
George Butler	12	12	-	-	4	4	-	-	-	-	-	-	-	-
Sara Venning	12	12	-	-	4	3	-	-	-	-	4	4	1	1

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 the risks 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 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 corporate risks 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. Both Committees are set up in a format that is consistent with the UK Corporate Governance Code. The Risk Committee provided an oversight and strategic challenge function in relation to the management of principal risks 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 Audit Committee and the Risk Committee received quarterly reports from the Executive Committee on the significant financial and non-financial risks 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 faced by the Company, have been in place for the year to 31 March 2013 and up to the date of the approval of the Annual Report and Accounts.

1000 incidents and 'Near Misses' recorded on Datix

Datix®
Safety and Risk Management Software

NI Water are pleased to announce that we have now reached a record 1000 'Incident' and 'Near Miss' reports on Datix. These relate to Health and Safety, Environment, theft and vandalism. The Datix reports include both incidents and near miss reports by our colleagues within NI Water and our contractors.

Principal risks and uncertainties

Principal Risks

The Company is exposed to a number of commercial risks and uncertainties which could have a material impact on its business, financial condition, operations and reputation. NI Water's 'Risk and Assurance Framework' is used to manage these risks such that exposure to the Company is managed to an acceptable level.

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

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.

Mitigation: NI Water's Major Incident Plan (MIP) has been in place to manage previous emergency and major events. Through planned exercises and external reviews the MIP is continually being improved to meet new challenges and requirements. Business Continuity Management is in place, supported by 14 specific Business Continuity Plans on key business risks. An Information Technology (IT) Disaster Recovery Plan is also in place to reduce the impact of adverse events and to manage recovery to business as usual.

2. 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.

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.

Mitigation: NI Water continues to work with the Utility Regulator and the DRD on short and long term funding arrangements and efficiency savings, including the approval of strategic capital projects to reduce the risk of adverse impacts on customers.

3. Changes in environmental protection laws and the regulations that govern the business could increase compliance costs.

NI Water works closely with its environmental regulators to implement new laws and regulations. Amongst other things, these establish standards for drinking water, discharges into the environment which affect its operations and the Company's responsibility to reduce its carbon footprint. These laws and their enforcement have tended to become more stringent over time, both in relation to their requirements, the associated cost for improvement and in the levels of proof required to demonstrate compliance. This could increase the Company's operating costs or capital expenditure by requiring changes and modifications to its operations and changes to its asset investment strategy in order to comply with any new environmental laws and regulations.

Mitigation: NI Water will continue to take account of the future capital and operating expenditure necessary to achieve and maintain compliance with current changes in laws and regulations, and seek to clarify their interpretation and associated compliance requirements.

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.

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 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 our customers, there is still a risk that such dialogue and engagement could create a negative impact on NI Water's reputation.

Mitigation: 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. We will be monitoring NI Water related websites to understand customer sentiments and provide clarification or assistance where it is appropriate to do so.

northern ireland **water**

IMPROVING DATA QUALITY

Release from Data Quality Undertakings

In 2008 NI Water identified issues with the quality of data used to develop the Scheme of Charges. This resulted in some customers being overcharged and some being undercharged. In conjunction with the Utility Regulator and to mitigate enforcement, NI Water submitted to a number of Legal Undertakings for Data Quality Improvement which commenced in April 2009.

The Company has shown a high level of commitment to the improvement of our data through the funding and resourcing of this significant programme of work. This has involved a number of projects focused at improving the accuracy and reliability of data.

The business areas prioritised during 2009 to 2012 included customer data such as meters, pipe-size and customer property addresses, with improvements to over 836,000 customer addresses.

A key area is changing the culture within the Company to get everyone involved in continuous improvement for on-going Data Quality. We have established and trained Data Owners who are responsible for the day-to-day quality of the data contained with our core systems. The Data Owners meet quarterly to set targets and review performance for data improvement in their areas of responsibility. An eLearning course has been completed by 94% of our non-industrial employees which has enhanced the awareness of Data Quality within the business.

Following the compilation of a comprehensive library of evidence, we applied for release from these Undertakings in February 2011. The Utility Regulator granted partial Release deferring full Release until after AIR 11 and further clarifications.

NI Water undertook a second round of review and clarifications following completion of AIR 11 and Reporter AIR 11 submissions. The Utility Regulator assessed this submission and granted full Release from the remaining Undertakings on 1st April 2012.

Although NI Water have been released from the Legal Undertakings, there is recognition that data quality is still an issue for the Company and that there is further work to do. Senior Management have continued to demonstrate their commitment to Data Quality and approved the funding of the programme of work in 2012/13 to keep improving quality.

NI Water would like to thank everyone who has been involved in improving data throughout the Programme. There has been a high level of commitment shown by all programme contributors including programme team members, Data Quality Group and Board and Data Owners which has contributed to the overall improvement of data quality and achieving Release from Undertakings.

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

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. 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.

Mitigation: The Company is continuing to work closely with the 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. The capital loan note facility and banking facilities, which were due to expire at the end of March 2014, have been extended in part to 31 March 2016. Further review of these arrangements will be required before 31 March 2016 to ensure sufficient funding for the capital programme and that appropriate banking arrangements are available to NI Water.

NI Water's existing borrowing facilities and banking arrangements were due to expire on 31 March 2014. The DRD has agreed with the DFP to an extension to 31 March 2016 to: NI Water's working capital facility; the ability to draw-down on the existing capital loan note; and continued access to banking services. The revolving credit facility of £55m to deal with emergency needs has not been renewed. It has been agreed that the capital loan note may be used to facilitate emergencies. The DRD has obtained the DFP's approval in principle to the subsidy agreement being amended for this purpose. The required amendment will be agreed between the DRD and NI Water prior to the expiration of the current revolving credit facility.

Mitigation: The Company is facilitating information requested by the DRD to put arrangements in place for the use of the subsidy mechanism to facilitate emergency cover.

7. The move to change the terms of reference of NI Water's Pension Scheme to be more in line with the public sector pension schemes could result in disagreement over some specific matters which have yet to be resolved.

The benefits accruing and contributions made by members of the NI Water Pension Scheme are not in line with other public sector pension schemes which have been, and continue to be, subject to reform. The bridging of the differences and phase of reform needs to be managed and agreed with members.

Mitigation: The Company's Pensions Reform project works closely with the Scheme's Actuary, the Board of Trustees and the DRD in ensuring that the necessary changes are implemented by April 2015.

Governance Statement

Introduction

A Dear Accounting Officer (DAO/DFP 10/12) letter was issued by the DFP on 30 October 2012 requiring a 'Governance Statement' to be included in the Annual Reports and Accounts for 2012/13. The Governance Statement replaces the 'Statement on Internal Control'. The DFP guidance included a revised Annex 3.1 to MPMNI, which highlighted key areas to be included. Section A.3.1.5 of MPMNI stated that 'there is no set template for the Governance Statement'.

NI Water, being a Limited Company, complies with the Companies Act and all Directors have collective responsibility as set out in the 'Unitary Board' approach in the UK Corporate Governance Code. In compliance with Companies Act and best practice, the Corporate Governance report on pages 93 to 103 sets out the role of the Board and the assessment of its effectiveness in discharging its responsibilities. As some of the compliance requirements as specified in Annex 3.1 of MPMNI have already been included the Governance Report, the Governance Statement needs to be read in conjunction with this report.

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 the DRD.

NI Water is a GoCo and complies, in so far as it is relevant, with the UK Corporate Governance Code applicable to its GoCo status (where NI Water does not comply it explains this as required by the Code). It is also categorised as a NDPB sponsored by the DRD. The governance arrangements between NI Water and the DRD are established through the MSFM and any further amendments issued by the DRD. These comply with the best practice standards of regularity and propriety in the use of Public Funds and the principles of MPMNI. The 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 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.

The Board approved the implementation of the 'Integrated Governance Framework' during the year which further improves on good governance and communication across the business. Several protocols for sharing good governance and risk management through joint working were established in year with other organisations, along with on-going research on best practice corporate governance through local universities.

The system of internal control has been in place in NI Water for the year ended 31 March 2013 and up to the date of approval of the Annual Report and Accounts, and accords with the DFP's and HM Treasury's guidance, where appropriate.

Capacity to handle risk

NI Water's Risk Management Policy is updated on an annual 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.

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, which provides it with the assurance on the robustness of NI Water's 'Risk and Assurance Framework'. These updates are also provided to the DRD.

A clear statement of the importance which NI Water attributes to risk management, in terms of the achievement of the Company's objectives, 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' activities are carried out to identify corporate risks that may have an impact on NI Water and to implement the key learning points.

The risk and control framework

The management team meets at the end of every financial year to evaluate the effectiveness of the Risk and Assurance Framework and to agree the necessary improvements required to address evolving business needs. This process is facilitated by the completion of a questionnaire on the review of effectiveness of risk management and identifies current and future corporate strategic risks. 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 to be managed in the year ahead.

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 of each Corporate Risk 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.

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[17] 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 the 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 the 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 each quarter to provide a challenge function and ensure consistency in the management and reporting of Corporate 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.

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.

[17] 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.

Some of the improvements to controls and risk management in the year include:

- Improvements made to the Major Incident Plan following the successful mock incident (operation Watermill 2);
- Implementation of the 'Integrated Governance Framework' and the 'Risk and Assurance Framework';
- Completion of all recommendations following the release of the Northern Ireland Audit Office's review of the 'Invoice Slicing' investigation;
- The Procurement Regularisation Project to regularise previously identified irregular supplier arrangements by December 2012 was completed on target;
- Enhancements to the goods, services and capital procurement controls and processes have been implemented;
- Improvement in the management and communication of corporate compliance;
- Fraud and bribery prevention training and awareness provided to employees;
- improvement to IT resilience and disaster recovery;
- Establishing the Information Governance Strategy and meeting the mandatory level 1 requirements of the Information Assurance Maturity Model (IAMM);
- Improvement in planning, management, monitoring and reporting of benefits;
- Improvement in the management of claims by the in-house Claims Management Unit resulting in more claims being closed and reducing costs of claims;
- Improvement in the controls surrounding income forecasting, monitoring and reporting;
- continual improvement in Business Continuity Management across the business to meet customers' needs;
- Improved compliance with Financial and Procurement Delegations; and
- Refinements to policies and procedures to comply with MPMNI and to be consistent with the DRD where appropriate.

Operation Watermill 2

Loading static tanks and bottled water in Enniskillen

Operation Watermill 2, on Thursday 18 October 2012, had been planned to practice and validate the Company's major incident management procedures and, in particular, the response to a freeze/thaw severe weather incident ahead of the 2012/13 winter period.

The scenario encountered by staff was similar to that of the real incident that occurred over the winter of 2010/11, where extreme cold weather was followed by the quick onset of thaw conditions with subsequent severe impact on service delivery.

Over 240 staff played active roles in the various incident response teams to deal with more than 120 simulated burst mains, depletion of approximately 100 service reservoirs and loss of supply from two of the Company's largest water treatment works. This required the implementation of mitigation measures involving; tactical planning for a phased loss of supply across affected water treatment works' supply zones; desktop mobilisation of alternative water supplies to 100,000 properties; informing and advising customers through the Customer Relations Centre and the Emergency Incident Website; managing media expectations and; informing and updating stakeholders of the developing situation. A live deployment of static tanks was also undertaken to Lagan Valley Hospital, Lisburn, and South West Acute Hospital, Enniskillen, to test closed community contingency plans for these sites. The exercise was monitored and controlled by a team of umpires including a consultant external observer.

We asked NI Water's Emergency Planning Manager and Exercise Coordinator for his thoughts:

"This was a challenging simulation which tested contingency plans to an unprecedented extent. It highlighted the progress we have made to date and was helpful in underlining the areas that we need to develop further. I have received a lot of very positive feedback generally and the visiting observer was impressed with the genuine commitment of everyone involved. Thanks to everyone who played their part, the exercise succeeded in meeting its objectives and provided staff with a great opportunity to train and prepare for a real major incident."

Bronze networks operations in Enniskillen

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 work.

The Head of Internal Audit reports to the 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 internal control, governance and risk management. The Opinion for the year ended 31 March 2013 is 'Satisfactory: There is some risk that objectives may not be fully achieved'. Some improvements are required to enhance the adequacy and / or effectiveness of risk management, control, governance and information assurance.'

This assurance is 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. Overall, from a total of 23 assurance reviews completed during the year, 5 Limited, 14 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 good 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. The information governance group meets regularly to oversee the implementation of the Information Governance Strategy and continually improve the management of information risk within NI Water. Information Asset Owners (IAO) are also in place across each business area.

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 was provided to all relevant staff during the year to raise awareness of the requirements. To further mitigate information security risk, an Electronic Data Records Management System (EDRMS) is being implemented.

The Data Quality Strategy over the PC10 period included projects within the programme of work that have delivered significant data accuracy improvements including customer data improvements in relation to meters and supply addressing. The Information Governance Strategy which, in line with DAO (DFP) 10/12, defines the Information Governance roadmap for NI Water for the PC13 period and onwards into the PC15 period. The Strategy describes the key ways in which 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.

The risk associated with Information Governance and Data Quality is reflected under the Principal Risks and Uncertainties section above.

There was one incident in relation to 'lapse of protective security' in the year but this is not deemed as 'significant' risk. This incident was reported and managed through the Company's escalation procedures and key learning points were implemented during the year.

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.

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.

Procurement Controls Continue to Improve

Staff from across the organisation who were involved in the Project

NI Water has reached a significant milestone in its commitment to regularise off-contract expenditure with the completion of Phase 1 of the off-contract regularisation project. Ronan Larkin, Director of Finance & Regulation commented:

"We are making good on our commitment to further improve our controls and procedures in this important area for Northern Ireland Water. We have been able to deliver this only through concerted focus and excellent teamwork right across the organisation. I would like to thank everyone for their work in supporting the Project Team."

In 2010 NI Water committed to regularising off contract expenditure and focused closely on how contracts were awarded and extended as well as its procedures regarding buying goods and services on a quotation basis.

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 management and closure of Management Letter Points. Taking account of the aforementioned matters, I am satisfied that the 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' have been identified for further action. Most of the matters are reflected in the 'Principal Risks and Uncertainties' section, while others are reported to the Shareholder under Department Accounting Officer reporting requirements.

The Board and I will continue 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.

Trevor Haslett
Accounting Officer
26 June 2013

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2013.

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.

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.

Business review

The Company is required to set out in this report a fair review of the business of the Company during the financial year and the position of the Company at the end of the financial year. The information that fulfils these requirements can be found in the following sections of the Annual Report and Accounts:

- review of results (refer to pages 1 to 12);
- operational performance (refer to pages 23 to 83);
- financial performance (refer to pages 72 to 83);
- key performance indicators (refer to page 7);
- corporate social responsibility (refer to pages 85 to 91);
- risks and uncertainties (refer to pages 104 to 107);
- trends and factors likely to affect the future development, performance and position of the business (refer to pages 13 to 22 and pages 104 to 107); and
- financial risk management objectives and policies (refer to pages 145 to 147).

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 £29m for the year ended 31 March 2013 (2012: £27m[18]) will be approved by the Shareholder upon the recommendation of the Board in July 2013 and paid in August 2013 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2013.

[18] This dividend in respect of the year ended 31 March 2012 was paid in August 2012.

Directors and Officers

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

Current Non-Executive Directors:

- *Seán Hogan, Non-Executive Director - Chairman*. Seán is responsible for ensuring the Board works effectively. Seán chairs the Nomination and Remuneration Committee and the Corporate Social Responsibility Committee, and is also a member of the Audit Committee.
- *Donald Price, Non-Executive Director*. Donald is Chair of the Audit Committee and is a member of the Nomination and Remuneration Committee.
- *Kevin Steele, Non-Executive Director*. Kevin is Chair of the Procurement Committee and is the Senior Independent Director.
- *Deep Sagar, Non-Executive Director*. Deep is a member of the Procurement Committee.
- *John Rae, Non-Executive Director.* John is a member of the Risk Committee and the Corporate Social Responsibility Committee.
- *Jim Stewart, CBE, Non-Executive Director*. Jim is Chair of the Risk Committee and a member of the Audit Committee.

Current Executive Directors:

- *Trevor Haslett, Executive Director - Chief Executive*. Trevor 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.
- *Sara Venning, Executive Director - Director of Customer Service Delivery*. Sara is responsible for the supply and distribution of clean water, the removal and treatment of wastewater and all aspects of customer service delivery.
- *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).

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

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 2012/13. 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 120 to 125 and in note 8 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 judgment 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 agreement, 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 2013, was 32 days (2012: 32.6 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 2013 the year to date ratio stood at 14.8 days (2012: 15.4 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 £0.4m on research and development in 2012/13 (2012: £0.4m). Refer to note 7 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 is also committed to positive engagement with the Trade Unions.

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 2013, 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.

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
26 June 2013

Directors' remuneration report

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for making recommendations to the DRD on the remuneration policy and for ensuring that the remuneration policy is followed throughout the organisation. The remuneration of the Board is determined by the DRD. The terms of reference of the Nomination and Remuneration Committee are available by writing to our Company Secretary at the address on the back cover of this report.

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 2012/13 as a result of the NI Executive's decision to apply the Coalition Government's pay instructions for public sector staff.

Annual bonus

There was no bonus scheme in 2012/13 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[19] per day and the Non-Executive Directors receive a fee of £750[20] per day. The higher fee for the Chairman reflects the additional responsibilities of that role. Further details on the attendance by the Chairman and the Non-Executive Directors are provided on page 102.

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 in 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 2013				Year to 31 March 2012			
	Salary and allowances £000	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Total £000**	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £'000
Current Executive Directors:								
Trevor Haslett	**145 - 150**	**-**	**-**	**145 - 150**	135 - 140 (145 - 150 full year equivalent)	-	-	135 - 140
Ronan Larkin	**105 - 110**	**-**	**-**	**105 - 110**	105 - 110	-	-	105 - 110
George Butler	**105 - 110**	**-**	**-**	**105 - 110**	105 - 110	-	-	105 - 110
Sara Venning	**115 - 120**	**-**	**-**	**115 - 120**	115 - 120	-	-	115 - 120
Current members of the Executive Committee (not Executive Directors):								
Bill Gowdy	**75 – 80** (85 - 90 full year equivalent)	**-**	**-**	**75 - 80**	75 - 80	-	-	75 - 80
Mark Ellesmere	**100 - 105**	**-**	**-**	**100 - 105**	100 - 105	-	-	100 - 105

[19] 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.
[20] 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.

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 (2012: £145k-£150k). This was 3.95 times (2012: 3.49 times) the median remuneration of the workforce, which was £37,340 (2012: £39,365). The change in the pay multiple (ratio) between 2012/13 and 2011/12 was primarily due to the settlement of equal pay claims and salary arrears to former employees, which increased both the number of lower value payments and the total number of employees receiving payments. This resulted in a reduction to the median total remuneration.

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 2013	Year to 31 March 2012
	Total	Total
Highest paid Director (£'000)	**145 - 150**	135 - 140 (145 - 150 full year equivalent)
Median total remuneration (£)	**37,340**	39,365
Pay multiple (ratio)	**3.95**	3.49

Fees paid to Non-Executive Directors

	Year to 31 March 2013				Year to 31 March 2012			
	Salary and allowances £000	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Total £000**	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £'000
Current Non-Executive Directors:								
Seán Hogan - Chairman	**45 - 50*** (40 - 45 full year equivalent)	**-**	**-**	**45 - 50**	45 - 50* (40 - 45 full year equivalent)	-	-	45 - 50
Donald Price	**15 - 20**	**-**	**-**	**15- 20**	15 - 20	-	-	15 - 20
Kevin Steele	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Deep Sagar	**15 - 20**	**-**	**-**	**15 - 20**	10 - 15 (15 - 20 full year equivalent)	-	-	10 - 15
John Rae	**15 - 20**	**-**	**-**	**15 - 20**	10 - 15 (15 - 20 full year equivalent)	-	-	10 - 15
Jim Stewart, CBE	**20 - 25*** (15 - 20 full year equivalent)	**-**	**-**	**20 - 25**	10 - 15 (15 - 20 full year equivalent)	-	-	10 - 15

* includes additional days worked.

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. Set out on the following pages are details of the pension benefits to which each of the Executive Directors is entitled. 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. 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 2013	**Related lump sum at 31 March 2013**	**Real increase in pension at age 60**	**Real increase in lump sum at age 60**
	£000	**£000**	**£000**	**£'000**
Current Executive Directors:				
Trevor Haslett	65 - 70	200 - 205	5 - 7.5	20 - 22.5
Ronan Larkin	10 - 15	-	0 - 2.5	-
George Butler	10 - 15	-	0 - 2.5	-
Sara Venning	5 - 10	-	0 - 2.5	-
Current members of the Executive Committee (not Executive Directors):				
Bill Gowdy	5 - 10	15 - 20	0 - 2.5	2.5 - 5
Mark Ellesmere	10 - 15	-	0 - 2.5	-

Pension (CETV) benefits for members of the Executive Committee

	CETV at 31 March 2013	CETV at 31 March 2012	**Increase in transfer value less Director’s contribution**	**Employer contribution (to nearest £100)**
	£000	£000	**£000**	
Current Executive Directors:				
Trevor Haslett	**2,081**	1,852[21]	**227**	**40,400**
Ronan Larkin	**301**	254	**43**	**29,300**
George Butler	**348**	292	**52**	**29,300**
Sara Venning	**119**	78	**37**	**32,300**
Current members of the Executive Committee (not Executive Directors):				
Bill Gowdy	**182**	148	**33**	**20,700**
Mark Ellesmere	**241**	201	**36**	**27,800**

Trevor Haslett
Chief Executive
26 June 2013

[21] £2,008k on a full year equivalent basis.

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.

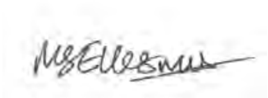
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union. Under company law the Directors must not approve the financial statements 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.

By order of the Board



Mark Ellesmere
Company Secretary
26 June 2013

STATUTORY ACCOUNTS

Aeration basins at Antrim Wastewater Treatment Works, County Antrim
(Image courtesy of Alan Lavery Photography)

Statement of financial position

	Note	At 31 March 2013 £000	At 31 March 2012 £000
Assets			
Property, plant and equipment	*11*	**2,321,482**	2,177,880
Investment properties	*12*	**7,982**	10,796
Intangible assets	*13*	**34,880**	28,662
Other investments	*14*	**53**	87
Employee benefits	*21*	**-**	9,543
Total non-current assets		**2,364,397**	2,226,968
Inventories	*16*	**2,387**	2,183
Trade and other receivables	*17*	**18,882**	21,960
Prepayments		**11,585**	13,393
Cash and cash equivalents	*18*	**20,872**	3,067
Assets classified as held for sale	*4*	**1,410**	327
Total current assets		**55,136**	40,930
Total assets		**2,419,533**	2,267,898
Equity			
Share capital	*19*	**500,000**	500,000
Statutory distributable reserve	*19*	**171,690**	171,690
Retained earnings	*19*	**316,724**	244,973
Available for sale reserve	*19*	**(53)**	-
Total equity attributable to owner of the Company		**988,361**	916,663
Liabilities			
Loans and borrowings	*20*	**1,095,782**	1,029,510
Other payables	*24*	**1,076**	1,044
Deferred income	*22*	**6,621**	6,968
Provisions	*23*	**7,591**	9,168
Deferred tax liabilities	*15*	**187,819**	166,083
Employee benefits	*21*	**5,354**	-
Total non-current liabilities		**1,304,243**	1,212,773
Loans and borrowings	*20*	**7,883**	8,164
Trade payables	*24*	**109,043**	108,946
Other payables	*24*	**6,942**	5,932
Deferred income	*22*	**384**	3,230
Provisions	*23*	**2,677**	12,190
Total current liabilities		**126,929**	138,462
Total liabilities		**1,431,172**	1,351,235
Total equity and liabilities		**2,419,533**	2,267,898

The financial statements were authorised for issue by the Board of Directors on 26 June 2013 and were signed on its behalf by:

Trevor Haslett

Trevor Haslett
Chief Executive
26 June 2013

Statement of comprehensive income

	Note	**Year to 31 March 2013**	Year to 31 March 2012
		£000	£000
Revenue	*5*	**425,599**	413,355
Other income	*6*	**681**	559
Operating expenses	*7*	**(229,274)**	(221,456)
Research and development expenses		**(424)**	(425)
Results from operating activities		**196,582**	192,033
Finance income	*9*	**7,274**	7,411
Finance costs	*9*	**(68,418)**	(66,045)
Net finance costs		**(61,144)**	(58,634)
Profit before income tax		**135,438**	133,399
Income tax expense	*10*	**(25,206)**	(18,795)
Profit for the year		**110,232**	114,604
Other comprehensive income			
Defined benefit plan actuarial (losses)/gains	*10*	**(11,535)**	1,456
Shares not held for trading – revaluation loss		**(34)**	(19)
Other comprehensive income for the period, net of income tax		**(11,569)**	1,437
Total comprehensive income for the period		**98,663**	116,041
Profit attributable to:			
Owner of the Company		**110,232**	114,604
Total comprehensive income attributable to:			
Owner of the Company		**98,663**	116,041

Statement of changes in equity

	Note	**Share capital £000**	**Statutory distributable reserve £000**	**Retained earnings £000**	**Total equity £000**
Balance at 1 April 2011	*19*	500,000	171,690	154,896	826,586
Total comprehensive income for the period					
Profit for the year		-	-	114,604	114,604
Other comprehensive income					
Defined benefit pension plan actuarial gains	*21*	-	-	1,875	1,875
Deferred tax arising on gains in defined benefit plan	*15*	-	-	(419)	(419)
Shares not held for trading – revaluation loss		-	-	(19)	(19)
Total other comprehensive income		-	-	1,437	1,437
Total comprehensive income for the period		-	-	116,041	116,041
Transactions with owner, recognised directly in equity					
Distributions to owner of the Company					
Dividends to owner of the Company	*19*	-	-	(25,964)	(25,964)
Balance at 31 March 2012		500,000	171,690	244,973	916,663
Dividends per share (GBP)					0.05

Statement of changes in equity (continued)

		Attributable to the owner of the Company				
	Note	**Share capital £000**	**Statutory distributable reserve £000**	**Retained earnings £000**	**Available for sale £000**	**Total equity £000**
Balance at 1 April 2012	*19*	500,000	171,690	244,973	-	916,663
Total comprehensive income for the period						
Profit for the year		-	-	110,232	-	110,232
Other comprehensive income						
Defined benefit pension plan actuarial losses	*21*	-	-	(15,005)		(15,005)
Deferred tax arising on gains in defined benefit plan	*15*	-	-	3,470		3,470
Transfer to available for sale		-	-	19	(19)	-
Shares not held for trading – revaluation loss		-	-	-	(34)	(34)
Total other comprehensive income		-	-	(11,516)	(53)	(11,569)
Total comprehensive income for the period		-	-	98,716	(53)	98,663
Transactions with owner, recognised directly in equity						
Distributions to owner of the Company						
Dividends to owner of the Company	*19*	-	-	(26,965)	-	(26,965)
Balance at 31 March 2013		500,000	171,690	316,724	(53)	988,361
Dividends per share (GBP)						0.05

Statement of cash flows

	Note	**Year to 31 March 2013 £000**	Year to 31 March 2012 £000
Cash flows from operating activities			
Profit before tax		**135,438**	133,399
Adjustments for:			
Depreciation	*11,12*	**59,653**	50,415
Amortisation of intangible assets	*13*	**5,456**	5,169
Impairment losses on investment property	*12*	**830**	2,403
Notional income relating to adopted assets	*5*	**(48,233)**	(47,939)
Gain on sale of property, plant and equipment	*6*	**(334)**	(212)
Interest expense	*9*	**61,144**	58,634
		213,954	201,869
Changes in:			
- inventories		**(204)**	(314)
- trade and other receivables		**3,078**	(1,563)
- prepayments		**1,808**	(3,504)
- trade and other payables		**(4,508)**	3,039
- provisions		**(11,090)**	1,328
- excess of cash pension contributions over charge		**741**	(315)
Cash generated from operating activities		**203,779**	200,540
Cash flows from investing activities			
Interest received		**148**	131
Proceeds from sale of property, plant and equipment		**1,177**	304
Acquisition of property, plant and equipment, and intangible assets		**(166,113)**	(191,092)
Net cash used in investing activities		**(164,788)**	(190,657)
Cash flows from financing activities			
Proceeds from borrowings		**75,000**	70,000
Payment of finance lease liabilities		**(9,009)**	(7,388)
Interest paid		**(60,212)**	(59,300)
Dividends paid	*19*	**(26,965)**	(25,964)
Net cash from financing activities		**(21,186)**	(22,652)
Net increase/(decrease) in cash and cash equivalents		**17,805**	(12,769)
Cash and cash equivalents at 1 April	*18*	**3,067**	15,836
Cash and cash equivalents at 31 March	*18*	**20,872**	3,067

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 (IFRSs) adopted by the EU.

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 26 June 2013.

(c) Basis of measurement
The financial statements have been prepared on the historical cost basis except for the defined benefit liability which is recognised as the net total of the plan assets less unrecognised actuarial gains and 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 liability 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 2013. The Directors consider it appropriate and are content to adopt this approach for the following reasons:

- a market for services for the provision of water and sewerage services will continue to exist and a licence is in place with the Utility Regulator, that is underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, that designates Northern Ireland Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland;
- the DRD provides substantial revenue funding to the business and will continue to do so until domestic charging is introduced;
- A £20m working capital facility is provided by the DRD until 31 March 2016;
- the DRD also provides a capital loan facility to fund the capital expenditure for the business; and
- cashflow projections indicate that the Company will be able to meet its liabilities as they fall due.

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) Use of 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.

1 Accounting policies (continued)

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 12 – impairment of assets;
- note 21 – measurement of defined benefit pension obligations; and
- notes 23 and 28 – provisions and contingencies.

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 are originated. 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.

Other investments

Other investments consist of ordinary shares and loan stock in WRc PLC (see note 14). Subsequent to initial recognition these are measured at fair value and the changes are recognised directly in equity. When an investment is sold the cumulative gain or loss in equity is transferred to profit or loss.

2 Significant accounting policies (continued)

(ii) Non-derivative financial liabilities
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs. These loans are non-derivative financial liabilities with fixed or determinable payments.

Financial liabilities (including liabilities designated at fair value through profit or loss) 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.

2 Significant accounting policies (continued)

(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.

(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., 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 relevant unit costs set during 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.

2 Significant accounting policies (continued)

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	60 -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

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.

(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.

2 Significant accounting policies (continued)

(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 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 'administrative 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:

Asset Type	**Asset Life**
Computer software	3 - 7 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.

2 Significant accounting policies (continued)

(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.

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. For intangible assets that have indefinite useful lives, or that are not yet available for use, the recoverable amount is estimated each year at the same time. 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 cash-generating unit 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 "cash-generating unit, or CGU").

2 Significant accounting policies (continued)

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.

(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.

(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 pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods: that benefit is discounted to determine its present value. The fair value of any plan assets, are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

2 Significant accounting policies (continued)

The Company recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

(ii) Termination benefits
Termination benefits are recognised as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(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. Revenue comprises: the customer subsidy provided by the 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 the 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.

2 Significant accounting policies (continued)

(l) Government grants
No new government grants were received during the year. Legacy grants to the DRD Water Service were credited to 'deferred income' within liabilities at fair value and are released to the SOCI 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 the 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 the 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 Group under leases which transfer to the Group 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 and notional finance income on the defined benefit plan. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise: interest expense on borrowings; unwinding of the discount on provisions; notional interest on the defined benefit plan; 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.

2 Significant accounting policies (continued)

(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 fair value, 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 the SOCI.

(q) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods set out below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted closing bid price at the reporting date.

(ii) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

2 Significant accounting policies (continued)

(iv) Deferred revenue
Deferred income includes government grants. Grants for capital expenditure are credited to a deferral account within creditors and are released to the SOCI evenly over the expected useful life of the relevant asset in accordance with the provisions of the Companies Act 2006.

(r) New standards, amendments and interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2013, and have not been applied in preparing these financial statements. These are listed below. With the exception of the amendments to IAS19 – Employee Benefits, none of these are expected to have a significant effect on the financial statements.

- Amendments to IFRS 9 Financial Instruments (mandatory for the year commencing on or after 1 January 2015).
- IFRS 13 Fair Value Measurement (mandatory for the year commencing on or after 1 January 2013).
- Amendments to IAS 19 Employee Benefits (mandatory for the year commencing on or after 1 January 2013).
- Amendments to IAS1 Presentation of Financial Statements – Presentation of Items of other comprehensive Income (mandatory for the year commencing on or after 1 January 2013).
- Amendments to IAS 32 Financial Instruments – offsetting financial assets and financial liabilities (mandatory for the year commencing on or after 1 January 2014).

Amendment to IAS 19: Employee Benefits
In June 2011, the IASB published an amended version of IAS 19 Employee Benefits. Adoption of the amendment is required for annual periods beginning on or after 1 January 2013 and generally applies retrospectively. The Company operates a defined benefit scheme in respect of all eligible employees. The primary impact of this amendment on the Company will be the determination of the net interest expense (or income) on the net defined benefit pension liability (or asset) for the period. The net interest expense/(income) will be determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the beginning of the annual period. The net interest on the net defined benefit liability comprises:

- interest cost on the defined benefit obligation; and
- interest income on plan assets.

Previously the Company determined interest income on plan assets based on their long-term rate of expected return. The adoption of the amendment to IAS 19 is expected to increase the defined benefit expense recognised in profit or loss, with a corresponding reduction in the defined benefit plan re-measurement loss recognised in other comprehensive income by £0.4m for the year ended 31 March 2013. The change in accounting policy is not expected to materially impact on net assets as at 31 March 2013 or 31 March 2014.

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.

Risk management framework
The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board established the Risk Committee, which oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee has an oversight function for Financial Risk Management. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Audit Committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk appetite and controls, and to monitor risks and adherence to the policy. Risk management policies and systems are reviewed regularly to reflect changes in external factors including the economy, legislation, government guidance and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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 8-step process for chasing debt over an 8 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.

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 the 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 the DRD, there is no concentration of credit risk with respect to its trade receivables.

3 Financial risk management (continued)

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 the DRD, and by the 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.

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. In addition, the Company maintains the following lines of credit:

(a) £20m working capital facility provided by the DRD for the period to 31 March 2016 (previously 31 March 2014). Borrowings on the facility are repayable on demand. Interest is payable at a floating rate of the London Interbank Offered Rate (LIBOR) + 0.35%; and

(b) £55m revolving credit facility also provided by the DRD for the period to 31 March 2014. The facility is split into two elements, Facility A and Facility B. Interest is payable on Facility A at floating rates of LIBOR + 0.35% and on Facility B at floating rates of LIBOR + 2.00%.

The facilities outlined at (a) and (b) are not utilised at 31 March 2013.

The Company's net current liabilities can be met using the capital loan note facility (see note 20) provided by the DRD and, if necessary, the facilities above.

Work is being taken forward with the DRD in respect of the expiry of the facilities outlined at (a) and (b). The DRD has obtained the DFP's approval to extend the £20m working capital facility and the use of the capital loan note facility to 31 March 2016. The revolving credit facility of £55m to deal with emergency needs has not been renewed. It has been agreed that the capital loan note may be used to facilitate emergencies. The DRD has obtained the DFP's approval in principle to the subsidy agreement being amended for this purpose. The required amendment will be agreed between the DRD and NI Water prior to the expiration of the current revolving credit facility.

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.

3 Financial risk management (continued)

Interest Rate Risk
Interest rates on 100% of borrowings at 31 March 2013 (2012: 100%) were at fixed rates. The Company has committed borrowing facilities available but unused at the year end on which interest is charged at floating rates based on LIBOR plus a margin as set out in (a) and (b) 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.

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.

3 Financial risk management (continued)

Other risks
Other risks identified by the Company are outlined under 'Principal Risks and Uncertainties' on pages 104 to 107.

4 Non-current assets held for sale

The Company's Land Management Department is focusing 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 2014 these properties have been classified as held for sale in current assets.

	At 31 March 2013 £000	At 31 March 2012 £000
Property, plant and equipment	**1,410**	327

A gain of £146k (2012:£100k) on disposal of non-current assets held for sale is included within 'Other income' in the SOCI. The transfer of these properties to Non-current assets held for sale is detailed in Note 12 Investment properties.

5 Revenue

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Customer subsidy provided by the DRD	**281,677**	269,161
Customer income	**69,021**	70,502
Road drainage income from the DRD	**20,911**	20,134
Transfers of assets from customers	**48,233**	47,939
Connection and infrastructure charges	**4,179**	4,762
Other third party contributions	**1,578**	857
	425,599	413,355

Customer subsidy provided by the DRD
The customer subsidy provided by the 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 from the DRD
This revenue from the DRD Roads Service 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 2013 £000	Year to 31 March 2012 £000
Net gain on sale of property, plant and equipment	**334**	212
Amortisation of deferred grants and contributions	**347**	347
	681	559

7 Operating expenses

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Raw materials and consumables	**9,325**	9,652
Other operating expenses*	**111,527**	107,568
Staff costs	**53,670**	55,239
Own work capitalised**	**(11,187)**	(8,990)
Depreciation and other amounts written off tangible and intangible assets	**65,939**	57,987
Total operating expenses	**229,274**	221,456

7 Operating expenses (continued)

*Other operating expenses comprise:

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Power	**34,328**	29,476
Rates	**14,451**	13,434
Hire and contracted services	**50,972**	51,202
Other operating expenses	**11,776**	13,456
Total other operating expenses	**111,527**	107,568

** Own work capitalised includes payroll costs (see note 8), materials and overheads.

NI Water invested £0.4m on research and development in the year ended 31 March 2013 (2012: £0.4m).

The net increase in inventories for the year was £204k (2012:£314k increase).

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Impairment loss on property, plant and equipment	**-**	-
Impairment loss on investment properties	**830**	2,403
Impairment loss on trade receivables	**1,285**	(16)
	2,115	2,387

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 2013 £000	Year to 31 March 2012 £000
Auditor's remuneration:		
Audit of statutory financial statements	**78**	95
Audit of regulatory financial statements	**17**	18
Audit of whole of government account submission	**2**	2
	97	115
Amounts receivable by the auditor in respect of:		
Other services relating to taxation	**72**	120
Accounting and regulatory advice	**11**	11
	83	131
Total fees paid to the auditor	**180**	246

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 2013	No. of employees Year to 31 March 2012
Directors	**10**	10
Non-industrial staff	**780**	785
Industrial staff	**511**	523
	1,301	1,318

The aggregate payroll costs of these persons were as follows:

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Wages and salaries	**40,430**	41,690
Social security costs	**3,079**	3,239
Other pension costs	**10,161**	10,310
	53,670	55,239

An amount of £9,388k (2012: £7,646k) 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 120 to 125. 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. In summary, key management personnel compensation comprised:

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Short-term employee benefits	**814**	783
Post-employment benefits	**182**	174
	996	957

The emoluments of the highest paid Director were £150k (2012: £150k).

8 Personnel numbers and expenses (continued)

There would be 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 2013**	**Number of other departures agreed 31 March 2013**	**Total number of exit packages by cost band 31 March 2013**	Number of compulsory redundancies 31 March 2012	Number of other departures agreed 31 March 2012	Total number of exit packages by cost band 31 March 2012
£000						
0 – 10	**-**	**1**	**1**	-	-	-
10 – 25	**-**	**24**	**24**	-	11	11
25 – 50	**-**	**11**	**11**	-	4	4
50 – 100	**-**	**22**	**22**	5	12	17
Above 100	**-**	**7**	**7**	1	2	3
Total number	**-**	**65**	**65**	6	29	35
Total cost (£'000)	**-**	**3,467**	**3,467**	540	1,610	2,150

8c Off-payroll engagements

In accordance with the DFP disclosure guidance - FD (DFP) 04/13, the Company can confirm that there were no 'off payroll' engagements at a cost of over £58,200 per annum in place between 31 January 2012 and 31 March 2013.

9 Finance income and finance costs

Recognised in profit or loss

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Interest income on bank deposits	**148**	127
Expected return on pension scheme assets	**7,126**	7,284
Finance income	**7,274**	7,411
Interest on pension scheme liabilities	**(6,277)**	(6,128)
Interest expense on financial liabilities measured at amortised cost	**(40,298)**	(38,209)
Interest on PPP financing arrangements	**(21,843)**	(21,708)
Finance costs	**(68,418)**	(66,045)
Net finance costs recognised in profit or loss	**(61,144)**	(58,634)

The above finance income and finance costs include the following interest income and expense in respect of assets / (liabilities) not at fair value through profit or loss:

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Total interest income on financial assets	**7,274**	7,411
Total interest expense on financial liabilities	**(68,418)**	(66,045)

Of the above amount £44,103k (2012: £39,894k) was payable to the DRD in relation to loan notes issued (see note 20 'Loans and borrowings' and note 29 'Related parties'). Interest of £3,839k was capitalised in the year (2012: £1,775k).

10 Income tax expense

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Tax recognised in profit or loss		
Current tax expense		
Current year	**-**	-
Adjustment for prior years	**-**	-
	-	-

10 Income tax expense (continued)

	Note	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Deferred tax			
(Origination) and reversal of temporary differences		**(34,252)**	(37,047)
Adjustment to prior years		**757**	4,481
Reduction in tax rate from 24% to 23% (2012: 26% to 24%)		**8,289**	13,771
	15	**(25,206)**	(18,795)
Total income tax expense	*15*	**(25,206)**	(18,795)

Tax recognised in other comprehensive income
For the year ended 31 March

	Year to 31 March 2013			Year to 31 March 2012		
	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 (losses)/gains	**(15,005)**	**3,470**	**(11,535)**	1,875	(419)	1,456
	(15,005)	**3,470**	**(11,535)**	1,875	(419)	1,456

Reconciliation of effective tax rate

	Year to 31 March 2013 %	**Year to 31 March 2013 £000**	Year to 31 March 2012 %	Year to 31 March 2012 £000
Profit for the year		**110,232**		114,604
Total income tax expense		**25,206**		18,795
Profit excluding income tax		**135,438**		133,399
Income tax using the Company's domestic tax rate	**24**	**32,505**	26	34,684
Reduction in tax rate	**(6)**	**(8,289)**	(10)	(13,771)
Non-deductible expenses	**1**	**1,747**	1	2,363
Adjustment to prior years	**(0.5)**	**(757)**	(3)	(4,481)
	18.5	**25,206**	14	18,795

Factors affecting future tax charge

At the end of March 2013 the Chancellor of the Exchequer made an announcement in the Budget of a corporation tax rate of 21% to be applicable for the financial year beginning 1 April 2014. The Chancellor also announced that a corporation tax rate of 20% should apply for the financial year beginning 1 April 2015. These reduced rates will result in lower deferred tax charges for 2013/14 and 2014/15. If the 21% rate had been substantially enacted into legislation prior to 31 March 2013 the deferred tax liability at 31 March 2013 would have been £171.5m. If the 20% rate had been substantially enacted the deferred tax liability would have been £163.3m.

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 2011	90,091	1,160,900	723,577	10,557	162,455	**2,147,580**
Opening adjustments	185	(10)	(1,103)	-	1,044	**116**
Additions	-	2,899	-	-	177,488	**180,387**
Customer contributions	42	46,947	1,045	-	-	**48,034**
Disposals	(43)	(1,626)	(72)	(464)	-	**(2,205)**
Transfers	2,116	83,711	88,287	1,213	(175,327)	**-**
Reclassification to investment properties	(28,706)	-	(2,868)	-	-	**(31,574)**
Balance at 31 March 2012	**63,685**	**1,292,821**	**808,866**	**11,306**	**165,660**	**2,342,338**
Balance at 1 April 2012	63,685	1,292,821	808,866	11,306	165,660	**2,342,338**
Opening adjustments	-	(383)	326	-	57	**-**
Additions	-	2,843	-	-	152,124	**154,967**
Customer contributions	4	47,564	665	-	-	**48,233**
Disposals	(203)	(4,400)	(1,658)	(354)	-	**(6,615)**
Transfers	7,594	77,602	96,471	1,048	(182,715)	**-**
Reclassification	639	23	(666)	4	-	**-**
Balance at 31 March 2013	**71,719**	**1,416,070**	**904,004**	**12,004**	**135,126**	**2,538,923**

* 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 2011	(15,645)	(36,769)	(75,917)	(5,842)	-	**(134,173)**
Opening adjustments	-	-	(26)	-	-	**(26)**
Depreciation for the year	(1,205)	(14,481)	(33,307)	(1,340)	-	**(50,333)**
Disposals	20	1,626	15	447	-	**2,108**
Reclassification to investment properties	15,970	-	1,996	-	-	**17,966**
Balance at 31 March 2012	**(860)**	**(49,624)**	**(107,239)**	**(6,735)**	**-**	**(164,458)**
Balance at 1 April 2012	(860)	(49,624)	(107,239)	(6,735)	-	**(164,458)**
Depreciation for the year	(1,141)	(20,740)	(36,378)	(1,336)	-	**(59,595)**
Disposals	203	4,400	1,658	351	-	**6,612**
Balance at 31 March 2013	**(1,798)**	**(65,964)**	**(141,959)**	**(7,720)**	**-**	**(217,441)**
Carrying amounts						
At 31 March 2012	62,825	1,243,197	701,627	4,571	165,660	2,177,880
At 31 March 2013	**69,921**	**1,350,106**	**762,045**	**4,284**	**135,126**	**2,321,482**

* Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.

There were no transfers to Investment Properties in 2012-13.

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 £3,839k (2012: £1,775k) of borrowing costs capitalised during the period using a capitalisation rate of 5.25% (2012: 5.25%).

Leased assets

	At 31 March 2013 £000	At 31 March 2012 £000
The net book value of land and buildings comprises:		
Freehold	**68,841**	62,139
Leasehold - long and short term	**1,080**	686
Total	**69,921**	62,825

	At 31 March 2013 £000	At 31 March 2012 £000
Land within this total is not depreciated and is shown as follows:		
Freehold	**18,243**	17,941

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 2011	-
Reclassification from property, plant and equipment	31,574
Disposals	(200)
Reclassification to non-current assets held for sale	(3,136)
Balance at 31 March 2012	**28,238**
Balance at 1 April 2012	28,238
Reclassification from non-current assets held for sale*	1,036
Disposals	(1,262)
Reclassification to non-current assets held for sale	(3,276)
Balance at 31 March 2013	**24,736**
Accumulated depreciation and impairment losses	
Balance at 1 April 2011	-
Reclassification from property, plant and equipment	(17,966)
Reclassification to non-current assets held for sale	2,809
Disposals	200
Depreciation for the year	(82)
Impairment loss	(2,403)
Balance at 31 March 2012	**(17,442)**
Balance at 1 April 2012	(17,442)
Reclassification from non-current assets held for sale*	(934)
Reclassification to non-current assets held for sale	1,866
Disposals	644
Depreciation for the year	(58)
Impairment loss	(830)
Balance at 31 March 2013	**(16,754)**
Carrying amounts	
At 31 March 2012	10,796
At 31 March 2013	**7,982**

Impairment loss
During the year ended 31 March 2013, the Company recognised an impairment loss of £830k (2012: £2.4m) relating to 14 surplus land and buildings assets. The impairments arose following a professional valuation of land and buildings 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 the decline in the property market, the assets carrying amounts were greater than their fair value. As a result, the land and buildings assets were impaired so that the carrying amounts represent cost less accumulated depreciation less impairment losses.

* During the year certain properties were transferred back into investment properties from non-current assets held for sale as they no longer met the conditions necessary to be classified in this category.

13 Intangible assets

	Computer software	Assets in the course of construction	**Total**
	£000	£000	**£000**
Cost			
Balance at 1 April 2011	24,597	6,668	**31,265**
Acquisitions	-	13,874	**13,874**
Transfers	12,115	(12,115)	**-**
Balance at 31 March 2012	**36,712**	**8,427**	**45,139**
Balance at 1 April 2012	36,712	8,427	**45,139**
Acquisitions	-	11,674	**11,674**
Transfers	8,741	(8,741)	**-**
Balance at 31 March 2013	**45,453**	**11,360**	**56,813**
Amortisation			
Balance at 1 April 2011	(11,308)	-	**(11,308)**
Amortisation for the year	(5,169)	-	**(5,169)**
Balance at 31 March 2012	**(16,477)**	**-**	**(16,477)**
Balance at 1 April 2012	(16,477)	-	**(16,477)**
Amortisation for the year	(5,456)	-	**(5,456)**
Balance at 31 March 2013	**(21,933)**	**-**	**(21,933)**
Carrying amounts			
At 31 March 2012	20,235	8,427	28,662
At 31 March 2013	**23,520**	**11,360**	**34,880**

Assets in the course of construction (AICC)
No borrowing costs have been capitalised in AICC or commissioned in computer software. There were no disposals during the year (2012: £nil).

£424k (2012: £425k) of research and development expenditure was recognised as an expense during the year.

13 Intangible assets (continued)

The following intangible assets are deemed to be material to the Company's financial statements:

Description	Carrying amount	Remaining amortisation period (years)
Mobile Work Management System	£1.9m	2
Customer Billing/Contacts/ Mobile Work Management Project	£2.06m	3
Digitisation	£1.44m	5
NI Asset Management Plan (NIAMP) 3	£1.05m	3
Costing solution development	£1.25m	Under development*

* Assets under development are not amortised.

The contractual commitments for the acquisition of intangible assets as at 31 March 2013 are £1,455k (2012: £3,534k).

14 Other investments

	At 31 March 2013 £000	At 31 March 2012 £000
Non-current investments		
8% unsecured loan stock (15,278 units at £1 each)	**15**	15
15,278 ordinary 'A' shares (re-valued at 31 March 2013 at market value £2.46 per share)	**38**	72
	53	87

The shares and loan stock relate to an investment in WRc PLC. WRc carries out research in the water, waste and environment sectors. The market value at 31 March 2013 was £2.46 per ordinary share (2012: £4.68). The loan stock is unlisted. The fair value adjustment of £34k has been charged to Other Comprehensive Income and has been debited 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 2013	At 31 March 2012	**At 31 March 2013**	At 31 March 2012	**At 31 March 2013**	At 31 March 2012
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	**-**	-	**212,416**	196,647	**212,416**	196,647
Intangible assets	**-**	-	**1,393**	1,245	**1,393**	1,245
Employee benefits	**(1,231)**	-	**-**	2,291	**(1,231)**	2,291
Tax losses carried forward	**(24,759)**	(34,100)	**-**	-	**(24,759)**	(34,100)
Net tax (assets) / liabilities	**(25,990)**	(34,100)	**213,809**	200,183	**187,819**	166,083

Movement in temporary differences during the year

	Balance at 31 March 2012	**Recognised in profit**	**Recognised in other comprehensive income**	**Balance at 31 March 2013**
	£000	**£000**	**£000**	**£000**
Property, plant and equipment	196,647	15,769	-	**212,416**
Intangible assets	1,245	148	-	**1,393**
Employee benefits	2,291	(52)	(3,470)	**(1,231)**
Tax losses carried forward	(34,100)	9,341	-	**(24,759)**
	166,083	25,206	(3,470)	**187,819**

The impact on the deferred tax liability arising from future changes in the underlying tax rate is disclosed in note 10.

15 Deferred tax assets and liabilities (continued)

There are currently 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. NI Water has adopted current tax practices for the UK Water Industry in the calculation of the deferred tax liability at 31 March 2013. The Directors are content that given the uncertainty around the outcome of the deliberations by HMRC the level of deferred tax provisioning shown in the accounts is appropriate.

16 Inventories

	At 31 March 2013 £000	At 31 March 2012 £000
Raw materials and consumables	**2,369**	2,141
Work in progress	**18**	42
	2,387	2,183

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 recognised within operating costs amounted to £454k (2012: £177k). In the year ending 31 March 2013 the write-down of inventories to net realisable value amounted to £60k (2012: £60k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2012: £60k) and provision against work in progress of £nil (2012: £nil). The reversal of write-downs amounted to £nil (2012: £nil). The write-down and reversal are included in operating expenses.

17 Trade and other receivables

	At 31 March 2013 £000	At 31 March 2012 £000
Trade receivables from related parties (see note 29)	**1,418**	1,397
Other trade receivables	**8,452**	10,939
Other receivables	**9,012**	9,624
	18,882	21,960
Current	**18,882**	21,960

At 31 March 2013 other receivables include VAT receivable of £7,752k (2012: £7,132k).

18 Cash and cash equivalents

	At 31 March 2013 £000	At 31 March 2012 £000
Bank balances	**15,572**	3,067
Call deposits	**5,300**	-
Cash and cash equivalents	**20,872**	3,067

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 2013 £000	At 31 March 2012 £000
Authorised		
500m Ordinary shares of £1 each	**500,000**	500,000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000

Ordinary shares

At 31 March 2013 the authorised share capital comprised 500 million ordinary shares (2012: 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 2013			At 31 March 2012	
	Statutory distributable reserve £000	**Retained earnings £000**	**Available for sale reserve £000**	Statutory distributable reserve £000	Retained earnings £000
At beginning of year	**171,690**	**244,973**	**-**	171,690	154,896
Profit for the year	**-**	**110,232**	**-**	-	114,604
Dividends on shares classified as Shareholder's funds	**-**	**(26,965)**	**-**	-	(25,964)
Actuarial (losses)/gains recognised in the pension scheme	**-**	**(15,005)**	**-**	-	1,875
Deferred tax arising on losses / (gains) in the pension scheme	**-**	**3,470**	**-**	-	(419)
Shares not held for trading – revaluation losses	**-**	**-**	**(34)**	-	(19)
Transfer to Available for sale reserve	**-**	**19**	**(19)**	-	-
	171,690	**316,724**	**(53)**	171,690	244,973

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 2013 £000	Year to 31 March 2012 £000
5.39 pence per allotted ordinary share (2012: 5.19 pence)	**26,965**	25,964

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 2013 £000	At 31 March 2012 £000
Non-current liabilities		
Capital loan notes	**882,560**	807,560
Finance lease liabilities	**213,222**	221,950
	1,095,782	1,029,510
Current liabilities		
Current portion of finance lease liabilities	**7,883**	8,164
	7,883	8,164

Terms and debt repayment schedule
Terms and conditions of outstanding loans were as follows:

			At 31 March 2013		At 31 March 2012	
	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	**255,000**	**255,000**	180,000	180,000
PPP finance lease liabilities – Alpha	5.81%	2028	**97,533**	**97,533**	101,208	101,208
PPP finance lease liabilities – Omega	3.67%	2028	**119,463**	**119,463**	124,153	124,153
PPP finance lease liabilities - Kinnegar	3.99%	2018	**4,109**	**4,109**	4,753	4,753
			1,103,665	**1,103,665**	1,037,674	1,037,674

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 2013, £75m (2012: £70m) of loan notes were issued under this instrument. Capital loan notes are issued to the 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.

Finance lease liabilities
Finance lease liabilities are payable as follows:

	At 31 March 2013			At 31 March 2012		
	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	**29,683**	**21,800**	**7,883**	30,096	21,932	8,164
Between one and five years	**123,773**	**84,316**	**39,457**	122,756	85,443	37,313
More than 5 years	**346,040**	**172,275**	**173,765**	373,306	188,669	184,637
	499,496	**278,391**	**221,105**	526,158	296,044	230,114

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 Company expects to contribute approximately £11.8m to its pension plan in 2013/14 which includes £1.6m for 2012/13 past service costs.

When firstly established the NI Water Pension Scheme was divided into three Defined Benefits sections – Classic, Classic Plus and Premium. All of these are now closed arrangements, which mean that no new members can join them. From 1 December 2010 the Company provides a new defined benefit arrangement called CARE for all new employees.

All pension sections of the scheme include an annual pension related to the length of service and, either pensionable earnings in the final year of service, or pensionable earnings for each year of service. The option to commute part of total benefits to an initial lump sum, death benefits and benefits for dependents, are also included in the scheme. Employees contribute either 1.5% or 3.5% of pensionable salaries to the scheme during the year.

21 Employee benefits (continued)

The major assumptions used by the actuary in this disclosure:

	Conditions at 31 March 2013	Conditions at 31 March 2012
Rate of increase in salaries	**4.40%**	4.25%
Rate of increase in pensions in payment and deferred pensions	**3.40%**	3.25%
Discount rate	**4.40%**	5.00%
Inflation assumption	**3.40%**	3.25%

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 steady over time. Accrued liabilities are based on approximate calculations carried out by a qualified independent actuary. The scheme's latest actuarial valuation was carried out as at 31 March 2011.

	31 March 2013			
	Non-industrial		**Industrial**	
	Male	**Female**	**Male**	**Female**
Member age 60 (current life expectancy)	**27.6**	**30.2**	**25.9**	**28.4**
Member age 40 (life expectancy at age 60)	**30.1**	**32.7**	**28.3**	**30.9**
	31 March 2012			
	Non-industrial		Industrial	
	Male	Female	Male	Female
Member age 60 (current life expectancy)	27.5	30.1	25.7	28.3
Member age 40 (life expectancy at age 60)	30.0	32.5	28.2	30.7

The weighted average target asset allocations were as follows:

	Total scheme assets at 31 March 2013	Total scheme assets at 31 March 2012
Asset category		
Equities	**27.50%**	45.00%
Corporate bonds	**20.00%**	20.00%
Gilts	**25.00%**	30.00%
Other*	**22.50%**	5.00%
Property	**5.00%**	-
	100.00%	100.00%

* includes Global Tactical Asset Allocation and Diversified Growth Fund.

21 Employee benefits (continued)

Plan assets

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio, which is shown below.

Scheme assets and liabilities

	Total at 31 March 2013 £000	Total at 31 March 2012 £000
Equities	**44,271**	60,488
Corporate bonds	**28,579**	24,443
Gilts	**41,566**	38,880
Other	**33,795**	6,384
Property	**7,577**	-
Total market value of assets	**155,788**	130,195
Actuarial value of liabilities	**(161,142)**	(120,652)
(Deficit)/Surplus in the scheme – pension (liability)/ asset	**(5,354)**	9,543
Related deferred tax asset/(liability)	**1,231**	(2,291)
Net pension (liability)/ asset	**(4,123)**	7,252

Expected rates of return on the assets in the scheme*

	Conditions at 31 March 2013	Conditions at 31 March 2012
Equities	**n/a**	6.50%
Corporate Bonds	**n/a**	5.00%
Gilts	**n/a**	3.50%
Other	**n/a**	6.50%
Weighted Return	**n/a**	5.30%

*Note 2 outlines how the future adoption of the amended version of IAS19 Employee Benefits (IAS19R) will impact on the determination of the assumption around the income on plan assets. Under IAS19R the expected return on assets will be in line with the discount rate adopted to value the liabilities.

21 Employee benefits (continued)

Changes in the fair value of plan assets

	Total year to 31 March 2013	Total year to 31 March 2012
	£000	£000
At the beginning of the year	**130,195**	113,342
Movement in year		
Expected return on assets	**7,126**	7,284
Contributions by plan participants	**858**	837
Contributions by employer	**10,909**	11,320
Actuarial gain	**7,649**	458
Benefits paid	**(2,501)**	(2,628)
Settlement in relation to adjustment to Omega bulk transfer	**-**	(191)
Settlement in relation to adjustment to PCSPS bulk transfer	**-**	276
Settlement in relation to admission of Northgate as a participating employer	**-**	(503)
Actuarial gain in respect of re-admission of Northgate employees	**1,402**	-
Curtailment in respect of cessation contribution from Northgate*	**150**	-
	155,788	130,195

* Northgate Managed Services was a supplier to NI Water until 31 March 2012. Under this arrangement Northgate was a participating employer in the NI Water Pension Fund. When this contract ended on 31 March 2012, Northgate were obliged to pay a final contribution of £150k into the fund and cease being participating employers of the scheme.

21 Employee benefits (continued)

Analysis of the present value of the defined benefit obligations

	Total year to 31 March 2013 £000	Total year to 31 March 2012 £000
At the beginning of the year	**120,652**	107,145
Movement in year		
Current service cost	**10,161**	10,310
Interest on scheme liabilities	**6,277**	6,128
Past service costs	**1,639**	695
Actuarial loss/(gain)	**22,654**	(1,417)
Contributions by plan participants	**858**	837
Benefits paid	**(2,501)**	(2,628)
Settlement in relation to adjustment to Omega bulk transfer	**-**	(191)
Settlement in relation to adjustment to PCSPS bulk transfer	**-**	276
Settlement in relation to admission of Northgate as a participating employer	**-**	(503)
Actuarial loss in respect of re-admission of Northgate employees	**1,402**	-
	161,142	120,652

Analysis of other pension costs charged in arriving at results from operating activities.

	Total year to 31 March 2013 £000	Total year to 31 March 2012 £000
Current service costs (operating costs - staff costs)	**10,161**	10,310
Past service costs (operating costs - staff costs)	**1,639**	695
Curtailment in respect of cessation contribution from Northgate	**(150)**	-
Total operating charge	**11,650**	11,005

21 Employee benefits (continued)

Analysis of amounts included in other finance income

	Total year to 31 March 2013 £000	Total year to 31 March 2012 £000
Total operating charge (brought forward)	**(11,650)**	(11,005)
Expected return on pension scheme assets	**7,126**	7,284
Interest on pension scheme liabilities	**(6,277)**	(6,128)
Other finance income	**849**	1,156
Total charge to profit	**(10,801)**	(9,849)

Analysis of amount recognised in statement of changes in equity

	Total year to 31 March 2013 £000	Total year to 31 March 2012 £000
Cumulative amount of actuarial gains recognised in other comprehensive income (brought forward)	**14,276**	12,401
Actual return less expected return on scheme assets	**7,649**	458
Experience gains and losses	**763**	5,595
Changes in assumptions underlying the present value of scheme liabilities	**(23,417)**	(4,178)
Actuarial (loss)/gain recognised in other comprehensive income	**(15,005)**	1,875
Cumulative amount of actuarial gains recognised in other comprehensive income (before deferred tax)	**(729)**	14,276

	Total year to 31 March 2013 £000	Total year to 31 March 2012 £000
Actual return on plan assets	**14,775**	7,742

21 Employee benefits (continued)

History of experience gains and losses

	2012/13	2011/12	2010/11	2009/10	2008/09
Experience gains and (losses) on scheme liabilities:					
Amount (£000)	**(763)**	5,595	-	(24)	(68,458)
Percentage of scheme liabilities	**-**	5%	-	-	(115)%
Difference between actual and expected return on scheme assets:					
Amount (£000)	**7,649**	458	1,501	8,784	(80,194)
Percentage of scheme assets	**5%**	-	1%	9%	(119)%

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 2012/13 %	**Change in liability 2012/13 £000**	Change in liability 2011/12 %	Change in liability 2011/12 £000
+ or - 0.25% in discount rate	**6.0%**	**9,700**	6.0%	7,000
+ or - 0.25% in rate of inflation	**5.6%**	**9,100**	5.7%	7,000
+ or - 0.25% in salary inflation	**2.3%**	**3,600**	2.4%	3,000
Increase in life expectancy of 1 year	**2.3%**	**3,800**	2.1%	3,000

22 Deferred income

Deferred income classified as current consists of 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 2013 £000	At 31 March 2012 £000
Government grants	**6,968**	7,317
Miscellaneous income	**37**	2,881
	7,005	10,198
Non-current	**6,621**	6,968
Current	**384**	3,230
	7,005	10,198

22 Deferred income (continued)

The Company has not been awarded any government grants during the year. The grants above, previously awarded to the DRD Water Service, 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 2012	2,680	648	7,053	175	10,802	**21,358**
New Provisions	1,802	10	-	-	1	**1,813**
Utilised	(1,059)	(258)	-	(55)	(1,000)	**(2,372)**
Transferred to Accruals	-	-	-	-	(9,123)	**(9,123)**
Amounts released unused	(1,403)	(5)	-	-	-	**(1,408)**
Balance at 31 March 2013	**2,020**	**395**	**7,053**	**120**	**680**	**10,268**
Non-current	1,212	296	5,403	-	680	**7,591**
Current	808	99	1,650	120	-	**2,677**
	2,020	**395**	**7,053**	**120**	**680**	**10,268**

Public and employer liability claims
The public liability and employer liability claims at 31 March 2013 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 £0.8m 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 although the exact nature and timing of the work is subject to the outcome of discussions with the environmental regulator, the NIEA.

23 Provisions (continued)

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 2013 to their official date of retirement. These payments are made on a monthly basis to the 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 £680k (2012: £679k).

The expected timing of any resulting outflows of economic benefits is as follows:

31 March 2013

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	808	99	1,650	120	-	**2,677**
In the second to fifth years	1,212	296	5,403	-	-	**6,911**
Over five years	-	-	-	-	680	**680**
	2,020	**395**	**7,053**	**120**	**680**	**10,268**

31 March 2012

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	1,248	162	507	150	10,123	**12,190**
In the second to fifth years	1,432	486	6,546	25	-	**8,489**
Over five years	-	-	-	-	679	**679**
	2,680	**648**	**7,053**	**175**	**10,802**	**21,358**

24 Trade and other payables

	At 31 March 2013 £000	At 31 March 2012 £000
Trade payables to related parties (see note 29)	**1,226**	523
Payments received on account	**1,127**	885
Trade payables	**2,639**	11,308
Taxation and social security	**1,119**	1,083
Accruals*	**102,932**	95,147
	109,043	108,946

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

* This includes both operating and capital related goods and services received but not yet invoiced at year end.

Other payables

	At 31 March 2013 £000	At 31 March 2012 £000
Non-current	**1,076**	1,044
Current	**6,942**	5,932
	8,018	6,976

Non-current other payables relates to retentions from capital projects all of which will fall due within two to five years.

25 Financial instruments

Credit risk
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:

	Note	At 31 March 2013 £000	At 31 March 2012 £000
Equity securities	*14*	**53**	87
Loans and receivables	*17*	**18,882**	21,960
Cash and cash equivalents	*18*	**20,872**	3,067
		39,807	25,114

The total exposure to credit risk for loans and receivables at the reporting date is in the UK.

25 Financial instruments (continued)

The maximum exposure to credit risk for loans and receivables at the reporting date by type of counterparty was:

	Carrying amount	
	At 31 March 2013	At 31 March 2012
	£000	£000
End-user customers	**8,452**	10,939
Other (including debtors in relation to VAT and related parties)	**10,430**	11,021
	18,882	21,960

The maximum exposure to cash and cash equivalents (note 18) is £20,872k (2012: £3,067k).

Impairment losses
The aging and impairment losses of loans and receivables at the reporting date was:

	Gross	**Impairment**	Gross	Impairment
	At 31 March 2013		At 31 March 2012	
	£000	**£000**	£000	£000
Not past due	**26,030**	**363**	30,228	236
Past due 0-30 days	**1,622**	**49**	1,214	43
Past due 31-60 days	**565**	**35**	70	19
Past due 61-90 days	**294**	**23**	812	20
Past due 91-120 days	**517**	**109**	747	154
Past due 121-150 days	**346**	**144**	572	199
Past due 151-365 days	**1,261**	**839**	2,298	1,418
Past due 1-2 years	**1,633**	**1,504**	2,111	2,029
Past due 2+ years *	**3,191**	**1,926**	3,203	1,784
	35,459	**4,992**	41,255	5,902

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 receivable balances (except in relation to VAT receivable see note 17).

* includes contractual debtors where there are no concerns over recoverability and therefore no provision for impairment.

25 Financial instruments (continued)

The aging of loans and receivables at the reporting date can also be shown as follows:

	At 31 March 2013 £000	At 31 March 2012 £000
Not past due	**25,467**	29,642
Past due 0-30 days	**1,338**	1,293
Past due 31-60 days	**546**	150
Past due 61-90 days	**236**	186
Past due 91-120 days	**396**	655
Past due 121-150 days	**217**	425
Past due 151-365 days	**1,219**	2,177
Past due 1-2 years	**1,564**	2,083
Past due 2+ years	**4,476**	4,644
	35,459	41,255

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:

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Balance at 1 April	**5,902**	7,234
New provisions	**2,827**	1,484
Bad debt provision utilised	**(1,285)**	(1,316)
Provision released unused	**(2,452)**	(1,500)
Balance at 31 March	**4,992**	5,902

25 Financial instruments (continued)

The Company establishes an allowance for impairment by applying a range of expected recovery rates, based on the risk of default across different industries, to an aged debt profile.

Age of Debt	Impairment %
Greater than 3 years	100%
2 - 3 years	75% to 100%
1 - 2 years	50% to 100%
181 - 365 days	30% to 80%
151 - 180 days	20% to 65%
121 - 150 days	10% to 35%
61 - 120 days	1% to 10%
0 - 60 days	1% to 5%

Specific allowances are applied in instances were non-collection is considered to be certain at the reporting date. The impairment percentages above are based on historic collection rates and 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.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments.

31 March 2013

	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	**882,560**	(1,491,877)	(21,808)	(21,689)	(43,497)	(130,611)	(1,274,272)
Finance lease liabilities	**221,105**	(499,496)	(15,246)	(14,437)	(31,034)	(92,739)	(346,040)
Trade and other payables	**117,061**	(117,061)	(115,985)	-	-	(1,076)	-
	1,220,726	(2,108,434)	(153,039)	(36,126)	(74,531)	(224,426)	(1,620,312)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 March 2012

	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	**807,560**	(1,424,077)	(20,601)	(20,483)	(41,078)	(123,347)	(1,218,568)
Finance lease liabilities	**230,114**	(526,157)	(15,048)	(15,048)	(29,724)	(93,031)	(373,306)
Trade and other payables	**115,922**	(115,922)	(114,878)	-	-	(1,044)	-
	1,153,596	(2,066,156)	(150,527)	(35,531)	(70,802)	(217,422)	(1,591,874)

Details of the timing of the cash outflows in respect of provisions are set out in note 23.

25 Financial instruments (continued)

Profile
At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Carrying amount At 31 March 2013 £000	At 31 March 2012 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,103,665)**	(1,037,674)
	(1,103,665)	(1,037,674)
Variable rate instruments		
Financial assets	**-**	-
Financial liabilities	**-**	-
	-	-

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.

Accounting classifications and fair values
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 as follows:

	Note	Designated at fair value through other comprehensive income £000	Loans and receivables £000	Other financial liabilities £000	Total carrying amount £000	Fair value £000
31 March 2013						
Cash and cash equivalents	*18*	-	20,872	-	20,872	20,872
Loans and receivables	*17*	-	18,882	-	18,882	18,882
Investment securities:						
- Equity securities	*14*	53	-	-	53	53
		53	39,754	-	39,807	39,807
Finance lease liabilities	*20*	-	-	(221,105)	(221,105)	(221,105)
Trade payables	*24*	-	-	(109,043)	(109,043)	(109,043)
Loans and borrowings	*20*	-	-	(882,560)	(882,560)	(887,443)
		-	-	(1,212,708)	(1,212,708)	(1,217,591)

25 Financial instruments (continued)

	Note	Designated at fair value through other comprehensive income £000	Loans and receivables £000	Other financial liabilities £000	Total carrying amount £000	Fair value £000
31 March 2012						
Cash and cash equivalents	*18*	-	3,067	-	3,067	3,067
Loans and receivables	*17*	-	21,960	-	21,960	21,960
Investment securities:						
- Equity securities	*14*	87	-	-	87	87
		87	25,027	-	25,114	25,114
Finance lease liabilities	*20*	-	-	(230,114)	(230,114)	(230,114)
Trade payables	*24*	-	-	(108,946)	(108,946)	(108,946)
Loans and borrowings	*20*	-	-	(807,560)	(807,560)	(819,059)
		-	-	(1,146,620)	(1,146,620)	(1,158,119)

26 Operating leases

Leases as lessee

Total future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	At 31 March 2013 £000	At 31 March 2012 £000
Less than one year	**82**	379
Between one and five years	**65**	127
	147	506

The Company leases office buildings and photocopiers under operating leases. The office leases typically run for a period of five to ten years. At the landlord's discretion, lease payments may be increased every five years to reflect market rentals.

During the year ended 31 March 2013 an amount of £176k was recognised as an expense in profit or loss in respect of operating leases (2012: £788k).

The office building leases were entered into in previous years as combined leases of land and buildings. Since the land title does not pass, the rent paid to the landlord of the building may be increased to market rent at regular intervals, and the Company does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the building are with the landlord. As such, the Company determined that the leases are operating leases.

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 2013 £000	At 31 March 2012 £000
Contracted	**65,984**	84,160

In addition to the above, at the end of the financial year the Company had entered into commitments amounting to £360m (2012: £496m). These commitments relate to planned future capital spend. The contracted amount of £66m 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 £0.8m (2012: £1.0m). 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 £6.95m (2012: £22.0m) 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 2013 £000	At 31 March 2012 £000
Public and employer liability	**770**	1,046
Contractor Claims	**6,950**	22,000
	7,720	23,046

Debenture to the DRD

The 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 the 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 the DRD in relation to these three guarantees. Under this debenture the Company pledges to the 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 the DRD is a deemed insurance contract and is accounted for in accordance with IAS 37.

28 Contingencies (continued)

Contingent assets

The Company received a number of cash performance bonds from customers in relation to requisition of water mains and sewerage services. The balance of cash bonds held at 31 March 2013 is £2.94m and this balance is included in accruals (see note 24). The bond would only be recognised in income when customers are in default of agreed conditions. The Company has also received a number of paper performance bonds issued by banks and the National House Building Council (NHBC) on behalf of customers in relation to requisition of water mains and sewerage services. These are not recognised in the financial statements. The value of paper bonds held at 31 March 2013 is £14.79m. These items are considered contingent assets as an inflow of economic benefits is considered to be remote as there is no information available at this time that would indicate that the performance bonds are likely to be presented to the issuing party in respect of non-performance by the customer.

29 Related parties

Parent and ultimate controlling party

The Company is a GoCo, wholly owned by its ultimate controlling party, the DRD. The results of the Company will not be within the annual financial statements prepared by the DRD, nor in the financial statements of any other entity. Inter-company debtor and creditor balances with the DRD and other government bodies will be supplied to the 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. Related party disclosures with the DRD are as follows:

	At 31 March 2013 £000	At 31 March 2012 £000
Subsidy		
Revenue subsidy from the DRD (credited to revenue)	**281,677**	269,162
Revenue relating to Road Drainage (credited to revenue)	**20,911**	20,134
Revenue subsidy from the DRD relating to third party contributions (credited to revenue)	**22**	-
Trade receivables - subsidy (included in Trade and other receivables - note 17)	**1,220**	1,230
Other sales to the DRD (credited to revenue)	**2,006**	1,539
Trade receivables - other sales to the DRD (included in Trade receivables - note 17)	**198**	167
Purchases		
Purchases from the DRD (included in operating costs or capital expenditure)	**933**	1,378
Trade payables - purchases from the DRD (included in Trade and other payables - note 24)	**1,226**	523
Loans and borrowings		
Loans from the DRD during the year	**75,000**	70,000
Balance on loans from the DRD at year end - note 20	**882,560**	807,560
Loan interest to the DRD - note 9	**44,103**	39,894
Loan interest owed to the DRD at year end	**2,678**	727
Dividends		
Dividend to Shareholder - note 19	**26,965**	25,964

29 Related parties (continued)

No guarantees are given to or received from the 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 the DRD.

Transactions with key management personnel
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 120 to 125.

Key management personnel's compensation is disclosed in note 8a.

Key management personnel's and Directors' transactions
Donald Price is a Non-Executive Director of NI Water and Chairman of the NI Water Audit Committee. He was also a Non-Executive Director of Northern Bank Ltd (including various subsidiaries) until June 2011. Northern Bank is the principal banker for the Company.

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 £101k (2012:£101k) 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 the 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.

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 2013 is £11.98m and £7.25m respectively (2012: £11.98m, £7.60m). The amount included in PPP Creditors at 31 March 2013 is £4.11m (2012: £4.75m).

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 2013 is £115.09m and £99.84m respectively (2012: £116.25m, £102.84m). The amount included in PPP Creditors at 31 March 2013 is £97.53m (2012: £101.21m).

30 Service concession agreements (continued)

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 2013 is £140.49m and £123.86m respectively (2012: £139.96m, £127.53m). The amount included in PPP Creditors at 31 March 2013 is £119.46m (2012: £124.15m).

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 now in their operational phase. Sites are licensed or leased to the PPP companies through the contract.

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.

Independent Auditors' Report to the Members of Northern Ireland Water Limited

We have audited the financial statements of Northern Ireland Water Limited for the year ended 31 March 2013 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 (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of Directors and Auditor

As described in the Statement of Directors' responsibilities set out on page 126, the Company's Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

Scope of the audit of the financial statements

An audit 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 annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 March 2013 and of its profit for the year then ended; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report to the Members of Northern Ireland Water Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

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.

Further details in respect of the regularity of expenditure can be found in our report on page 235.

Arthur O'Brien (Senior Statutory Auditor)
for and on behalf of KPMG, Statutory Auditor
KPMG Chartered Accountants
16 – 25 College Square East
Belfast BT1 6DH
26 June 2013

REGULATORY ACCOUNTS

Construction of Newry Road Terminal Pumping Station, Warrenpoint, County Down
(Image courtesy of Alan Lavery Photography)

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). This may be subject to any decisions that are reached by the NI Executive in relation to public expenditure;

(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

Trevor Haslett.

Trevor Haslett
Chief Executive
26 June 2013

HISTORICAL COST FINANCIAL STATEMENTS

Profit and loss account

	Year to 31 March 2013			Year to 31 March 2012		
	Appointed business	Non - Appointed business	Total	Appointed business	Non - Appointed business	Total
	£000	£000	£000	£000	£000	£000
Turnover	366,398	5,211	371,609	354,819	4,979	359,798
Operating costs	(201,982)	(3,693)	(205,675)	(200,465)	(3,479)	(203,944)
Historical cost depreciation	(44,871)	(16)	(44,887)	(46,216)	(16)	(46,232)
Operating profit	119,545	1,502	121,047	108,138	1,484	109,622
Net interest receivable/(payable)	(55,067)	14	(55,053)	(50,468)	18	(50,450)
Profit on ordinary activities before taxation	64,478	1,516	65,994	57,670	1,502	59,172
Taxation on profit on ordinary activities:						
Deferred tax	(24,872)	(334)	(25,206)	(18,472)	(323)	(18,795)
Profit on ordinary activities after taxation	39,606	1,182	40,788	39,198	1,179	40,377
Dividends	(26,587)	(378)	(26,965)	(25,604)	(360)	(25,964)
Retained profit for the financial year	13,019	804	13,823	13,594	819	14,413

Balance sheet

	At 31 March 2013			At 31 March 2012		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Fixed assets						
Tangible assets	1,907,525	97	1,907,622	1,822,992	113	1,823,105
Investments	106	-	106	106	-	106
	1,907,631	97	1,907,728	1,823,098	113	1,823,211
Current assets						
Stocks	2,379	8	2,387	2,177	6	2,183
Debtors	28,824	404	29,228	33,783	327	34,110
Infrastructure renewals prepayment	3,341	-	3,341	2,734	-	2,734
Cash at bank and in hand	14,402	6,470	20,872	(2,340)	5,407	3,067
	48,946	6,882	55,828	36,354	5,740	42,094
Creditors: amounts falling due within one year						
Payments received on account	(1,164)	-	(1,164)	(3,768)	-	(3,768)
Trade creditors	(2,621)	(28)	(2,649)	(11,712)	(119)	(11,831)
Taxation and social security	(1,119)	-	(1,119)	(1,082)	-	(1,082)
Other creditors	(9,738)	-	(9,738)	(6,769)	-	(6,769)
Accruals and deferred income	(100,958)	(395)	(101,353)	(93,993)	(317)	(94,310)
Deferred grants and contributions	(808)	-	(808)	(1,075)	-	(1,075)
PPP finance lease	(2,422)	-	(2,422)	(3,274)	-	(3,274)
	(118,830)	(423)	(119,253)	(121,673)	(436)	(122,109)
Net current (liabilities)/assets	(69,884)	6,459	(63,425)	(85,319)	5,304	(80,015)
Total assets less current liabilities	1,837,747	6,556	1,844,303	1,737,779	5,417	1,743,196
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(882,560)	-	(882,560)	(807,560)	-	(807,560)
Other creditors	(114,835)	-	(114,835)	(116,560)	-	(116,560)
	(997,395)	-	(997,395)	(924,120)	-	(924,120)
Provisions for liabilities and charges						
Deferred tax provision	(187,416)	(1,634)	(189,050)	(162,493)	(1,299)	(163,792)
Other provisions	(9,589)	-	(9,589)	(20,679)	-	(20,679)
	(197,005)	(1,634)	(198,639)	(183,172)	(1,299)	(184,471)
Pension (liability)/asset	(4,123)	-	(4,123)	7,253	-	7,253
Net Assets	639,224	4,922	644,146	637,740	4,118	641,858
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	(32,466)	4,922	(27,544)	(33,950)	4,118	(29,832)
Shareholder's funds	639,224	4,922	644,146	637,740	4,118	641,858

These financial statements were approved and authorised for issue by the Board of Directors on the 26 June 2013 and were signed on its behalf by:

Trevor Haslett

Trevor Haslett
Chief Executive
26 June 2013

Statement of total recognised gains and losses

	Year to 31 March 2013			Year to 31 March 2012		
	Appointed business	**Non - Appointed business**	**Total**	Appointed business	Non - Appointed business	Total
	£000	**£000**	**£000**	£000	£000	£000
Profit for the financial year	**13,019**	**804**	**13,823**	39,198	1,179	40,377
Actuarial (loss)/gain recognised in the pension scheme	**(15,005)**	**-**	**(15,005)**	1,875	-	1,875
Deferred tax arising on losses/(gains) in the pension scheme	**3,470**	**-**	**3,470**	(419)	-	(419)
Total recognised gains and losses relating to the financial year	**1,484**	**804**	**2,288**	40,654	1,179	41,833

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 2013. 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 2013 £000**
a) Operating profit / Results from operating activities	
Per Regulatory Accounts	121,047
Difference in income under IFRIC 18	53,991
Difference in infrastructure accounting	14,484
Difference in depreciation - non infrastructure	(4,775)
Difference in amortisation of grants and contributions	(426)
Difference in treatment of PPP contracts	13,247
Difference in capitalisation of expenditure	(985)
Other IFRS / UK GAAP differences	(1)
Per Statutory Accounts	**196,582**
b) Net interest receivable/(payable) / Net finance costs	
Per Regulatory Accounts	(55,053)
Capitalised interest under IFRS	3,839
Notional lease interest on PPP assets reclassified under IFRS	(9,930)
Per Statutory Accounts	**(61,144)**
c) Deferred taxation/Income tax expense	
Per Regulatory Accounts	(25,206)
Per Statutory Accounts	**(25,206)**

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 2013 £000**
a) Fixed Assets / Property, plant and equipment	
Cost	
At 31 March per Regulatory Accounts	**2,282,653**
Reverse regulatory infrastructure (accrual) / prepayment	3,341
Intangible assets separately identified under IFRS	(56,813)
Investment properties separately identified under IFRS	(24,736)
Assets identified as classified as held for sale	(3,276)
Difference in capitalisation of expenditure	(14,152)
Capitalised interest under IFRS	6,804
PPP assets treated 'on balance sheet' under IFRS	131,096
Capital contributions treated differently under IFRS	222,395
De-recognition of infrastructure assets	(15,328)
Decommissioning of Omega assets under UK GAAP	6,939
At 31 March per Statutory Accounts	**2,538,923**
Depreciation	
At 31 March per Regulatory Accounts	**375,031**
Intangible assets separately identified under IFRS	(21,933)
Investment properties separately identified under IFRS	(16,754)
Assets identified as classified as held for sale	(1,866)
Difference in depreciation of infrastructure assets	(124,843)
Difference in depreciation of non-infrastructure assets	16,371
De-recognition of infrastructure assets	(15,328)
Decommissioning of Omega assets under UK GAAP	6,763
At 31 March per Statutory Accounts	**217,441**
b) Debtors due in less than one year / trade and other receivables	
At 31 March per Regulatory Accounts	**29,228**
Prepayments shown separately under IFRS	(11,585)
Capital maintenance prepayment for IFRS PPP reclassified assets	1,239
At 31 March per Statutory Accounts	**18,882**

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 2013 £000**
c) Provisions	
At 31 March per Regulatory Accounts	**9,589**
Holiday pay provision under IFRS	679
At 31 March per Statutory Accounts	**10,268**
Provisions classified as non-current liabilities	7,591
Provisions classified as current liabilities	2,677
At 31 March per Statutory Accounts	**10,268**
d) Loans and borrowings	
At 31 March per Regulatory Accounts	**882,560**
Finance leases for PPP assets (Omega and Kinnegar) reclassified under IFRS	123,572
Alpha PPP lease liability reclassified under IFRS from other creditors (amounts falling due after more than one year)	95,111
Alpha PPP lease liability reclassified under IFRS from PPP finance lease (amounts falling due within one year)	2,422
At 31 March per Statutory Accounts	**1,103,665**
Loans and borrowings classified as non-current liabilities	1,095,782
Loans and borrowings classified as current liabilities	7,883
At 31 March per Statutory Accounts	**1,103,665**

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Profit and loss account for the appointed business

	Note	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Turnover	3	**366,398**	354,819
Current cost operating costs	4	**(349,470)**	(355,177)
Current cost profit / (loss) on disposal of fixed assets	3	**303**	(285)
Working capital adjustment	3,8	**2,641**	2,824
Current cost operating profit		**19,872**	2,181
Net interest payable		**(55,067)**	(50,468)
Financing adjustment	8	**30,464**	30,450
Current cost loss before taxation		**(4,731)**	(17,837)
Taxation on profit on ordinary activities:			
Deferred tax		**(24,872)**	(18,472)
Current cost loss attributable to Shareholder		**(29,603)**	(36,309)
Dividends		**(26,587)**	(25,604)
Current cost loss retained	7	**(56,190)**	(61,913)

Balance Sheet for the appointed business

	Note	At 31 March 2013 £000	At 31 March 2013 £000	At 31 March 2012 £000	At 31 March 2012 £000
Fixed assets					
Tangible assets	*5*	**8,438,992**		8,147,759	
Third party contributions		**(313,278)**		(255,418)	
			8,125,714		7,892,341
Working capital	*6*	**(81,590)**		(80,503)	
Cash	*9*	**9,102**		(2,340)	
Short term deposits	*9*	**5,300**		-	
Infrastructure renewals prepayment		**3,341**		2,734	
			(63,847)		(80,109)
Non-operating assets and liabilities					
Non-trade debtors		**7**		6	
Non-trade creditors due within one year		**(5,218)**		(4,141)	
Investments		**106**		106	
Total non-operating liabilities			**(5,105)**		(4,029)
Creditors: amounts falling due after more than one year					
Borrowings		**(882,560)**		(807,560)	
Other creditors		**(96,184)**		(98,978)	
			(978,744)		(906,538)
Provisions for liabilities and charges					
Deferred tax provision		**(187,416)**		(162,493)	
Other provisions		**(9,589)**		(20,679)	
			(197,005)		(183,172)
Pension (liability)/asset			**(4,123)**		7,253
Net assets			**6,876,890**		6,725,746
Capital and reserves					
Called up share capital			**500,000**		500,000
Distributable reserve			**171,690**		171,690
Profit and loss account	*7*		**(355,720)**		(287,995)
Current cost reserves	*8*		**6,560,920**		6,342,051
Shareholder's funds			**6,876,890**		6,725,746

These financial statements were approved and authorised for issue by the Board of Directors on 26 June 2013 and were signed on its behalf by:

Trevor Haslett

Trevor Haslett
Chief Executive
26 June 2013

Reconciliation of movements in Shareholder's funds

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Loss for the financial year	**(29,603)**	(36,309)
Dividends on shares classified in Shareholder's funds	**(26,587)**	(25,604)
Retained loss	**(56,190)**	(61,913)
Other recognised (losses)/gains relating to the year (net)	**(11,535)**	1,456
Profit and loss account	**(67,725)**	(60,457)
Increase in current cost reserves	**218,869**	232,712
Net addition to Shareholder's funds	**151,144**	172,255
Opening Shareholder's funds	**6,725,746**	6,553,491
Closing Shareholder's funds	**6,876,890**	6,725,746

Cash flow statement

	Year to 31 March 2013			Year to 31 March 2012		
	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)	**181,015**	**1,427**	**182,442**	179,166	1,640	180,806
Returns on investments and servicing of finance						
Interest received	**134**	**14**	**148**	114	18	132
Interest paid	**(42,208)**	**-**	**(42,208)**	(39,337)	-	(39,337)
Interest element of finance lease	**(11,913)**	**-**	**(11,913)**	(11,750)	-	(11,750)
Net cash (outflow)/inflow from returns on investments and servicing of finance	**(53,987)**	**14**	**(53,973)**	(50,973)	18	(50,955)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	**(130,590)**	**-**	**(130,590)**	(153,100)	-	(153,100)
Grants and contributions received	**5,757**	**-**	**5,757**	5,618	-	5,618
Infrastructure renewals expenditure	**(31,368)**	**-**	**(31,368)**	(35,847)	-	(35,847)
Disposal of fixed assets	**1,177**	**-**	**1,177**	304	-	304
Net cash outflow from investing activities	**(155,024)**	**-**	**(155,024)**	(183,025)	-	(183,025)
Equity dividends paid to the Shareholder	**(26,587)**	**(378)**	**(26,965)**	(25,604)	(360)	(25,964)
Cash (outflow)/inflow before management of liquid resources and financing	**(54,583)**	**1,063**	**(53,520)**	(80,436)	1,298	(79,138)
Management of liquid resources	**(5,300)**	**-**	**(5,300)**	15,000	-	15,000
Cash (outflow)/inflow from management of liquid resources	**(5,300)**	**-**	**(5,300)**	15,000	-	15,000
Net cash flow before financing	**(59,883)**	**1,063**	**(58,820)**	(65,436)	1,298	(64,138)
Financing						
Loans advanced	**75,000**	**-**	**75,000**	70,000	-	70,000
Capital element of finance lease repayments	**(3,675)**	**-**	**(3,675)**	(3,632)	-	(3,632)
Net cash inflow from financing	**71,325**	**-**	**71,325**	66,368	-	66,368
Net increase in cash	**11,442**	**1,063**	**12,505**	932	1,298	2,230

Notes to the Regulatory Accounts

1 Regulatory reporting

The Regulatory Accounts should be read in conjunction with the Business Review on pages 1 to 91, for further understanding of the performance of the business.

The Directors' report provides information on the dividend policy on page 116 and on 'Disclosure of information to auditors' on page 119.

The Directors' remuneration report is on pages 120 to 125 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 2013.

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 are content to adopt this approach for the following reasons:

- a market for services for the provision of water and sewerage services will continue to exist and a Licence is in place with the Utility Regulator, that is underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, that designates Northern Ireland Water Limited as the sole Water and Sewerage undertaker for Northern Ireland;
- the DRD provides substantial revenue funding to the business and will continue to do so until domestic charging is introduced;
- the DRD also provides a capital loan facility to fund the capital expenditure for the business; and
- cash flow projections indicate that the Company will be able to meet its liabilities as they fall due.

(b) General
The regulatory accounting policies are based on UK GAAP. The Statutory Accounts are based on IFRSs. 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 192 to 194). The significant differences between the accounting policies adopted in the Statutory Accounts and those adopted for the Regulatory Accounts are summarised below.

2 Accounting policies (continued)

(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 the DRD Water Service's audited accounts at 31 March 2007 prior to the application of the impairment adjustment. The current cost values in the 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.

The RAGs and any modifications issued by the Utility Regulator have been followed in the preparation of the current cost accounts.

There are on-going discussions with the Utility Regulator on the need for NI Water to revalue its assets on a Modern Equivalent Asset Value (MEAV) basis, in accordance with the RAGs. This has not been required by the Utility Regulator as part of PC13 and is currently not a requirement for PC15. NI Water will also continue to evaluate the need for such an exercise as an element of its asset management planning process.

Tangible fixed assets are restated to current value each year. From 2007/08, 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 PC10. The Utility Regulator determined that the IRC should be set equal to the anticipated IRE for each year of the three years contained within the business plan. The IRE formed part of the PC10 capital expenditure plan.

The IRE in the year ended 31 March 2013 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.

2 Accounting policies (continued)

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 UKGAAP and adopted in the Regulatory Accounts as outlined above in note 2(c). Under UKGAAP 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
- 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, the DRD Roads Service 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.

Under this approach, 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). Under this approach, 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 2013			Year to 31 March 2012		
	Water services £000	**Sewerage services £000**	**Total £000**	Water services £000	Sewerage services £000	Total £000
Turnover						
Unmeasured – household	**121,195**	**143,905**	**265,100**	119,300	134,000	253,300
Unmeasured – non household	**2,211**	**2,766**	**4,977**	2,287	2,591	4,878
Total unmeasured	**123,406**	**146,671**	**270,077**	121,587	136,591	258,178
Measured – non household	**38,751**	**22,144**	**60,895**	40,761	22,178	62,939
Total measured	**38,751**	**22,144**	**60,895**	40,761	22,178	62,939
Trade effluent	**-**	**4,326**	**4,326**	-	3,543	3,543
Large user and special agreements	**5,354**	**4,290**	**9,644**	5,553	3,881	9,434
Total trade effluent and large user special agreements	**5,354**	**8,616**	**13,970**	5,553	7,424	12,977
Rechargeable works	**93**	**93**	**186**	73	74	147
Other third party services	**172**	**21,098**	**21,270**	216	20,362	20,578
Total third party services	**265**	**21,191**	**21,456**	289	20,436	20,725
Total turnover	**167,776**	**198,622**	**366,398**	168,190	186,629	354,819

	Year to 31 March 2013			Year to 31 March 2012		
	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/(loss) on disposal of fixed assets	**133**	**170**	**303**	181	(466)	(285)
Working capital adjustment	**2,641**	**-**	**2,641**	2,824	-	2,824

4a Analysis of operating costs and tangible fixed assets

	Year to 31 March 2013							
	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	3,506	11,265	14,771	3,953	5,145	1,119	10,217	**24,988**
Power	11,163	3,503	14,666	5,155	10,889	3,347	19,391	**34,057**
Hired and contracted services	2,226	5,395	7,621	6,422	1,403	2,442	10,267	**17,888**
Materials and consumables	3,431	584	4,015	256	588	443	1,287	**5,302**
Service Charges	698	11	709	157	760	176	1,093	**1,802**
Other direct costs	5	19	24	14	4	1	19	**43**
Total direct costs	**21,029**	**20,777**	**41,806**	**15,957**	**18,789**	**7,528**	**42,274**	**84,080**
General and support expenditure	7,825	7,557	15,382	7,433	7,156	2,100	16,689	**32,071**
Total functional expenditure	**28,854**	**28,334**	**57,188**	**23,390**	**25,945**	**9,628**	**58,963**	**116,151**
Business activities								
Customer services			4,270				4,266	**8,536**
Scientific services			1,289				1,288	**2,577**
Other business activities			927				926	**1,853**
Rates			7,850				6,601	**14,451**
Doubtful debts			327				37	**364**
Total operating expenditure less third party services			**71,851**				**72,081**	**143,932**
Services for third parties			32				30	**62**
Total PPP unitary charge			1,845				26,488	**28,333**
Total operating expenditure			**73,728**				**98,599**	**172,327**
Capital costs								
Infrastructure renewals charge			19,902				10,859	**30,761**
Current cost depreciation:								
service activities	65,587	18,333	83,920	3,311	61,123	2,338	66,772	**150,692**
business activities			173				30	**203**
Amortisation of grants			(1,807)				(2,706)	**(4,513)**
Total capital costs			**102,188**				**74,955**	**177,143**
Total operating costs			**175,916**				**173,554**	**349,470**
Analysis of tangible fixed assets – MEAV[22]								
Service activities	786,322	3,200,313	3,986,635	3,207,400	1,213,587	29,900	4,450,887	**8,437,522**
Business activities			854				616	**1,470**
Total			**3,987,489**				**4,451,503**	**8,438,992**

[22] 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 2012							
	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	3,882	11,791	15,673	3,574	4,879	1,161	9,614	**25,287**
Power	10,662	3,372	14,034	4,463	9,861	3,112	17,436	**31,470**
Hired and contracted services	2,479	5,856	8,335	6,526	1,669	2,669	10,864	**19,199**
Materials and consumables	3,622	505	4,127	146	839	222	1,207	**5,334**
Other direct costs	5	9	14	10	4	1	15	**29**
Total direct costs	**20,650**	**21,533**	**42,183**	**14,719**	**17,252**	**7,165**	**39,136**	**81,319**
General and support expenditure	9,332	10,259	19,591	6,831	7,976	3,420	18,227	**37,818**
Total functional expenditure	**29,982**	**31,792**	**61,774**	**21,550**	**25,228**	**10,585**	**57,363**	**119,137**
Business activities								
Customer services			4,546				4,210	**8,756**
Scientific services			1,438				1,331	**2,769**
Other business activities			991				917	**1,908**
Rates			7,261				6,172	**13,433**
Doubtful debts			88				(268)	**(180)**
Total operating expenditure less third party services			**76,098**				**69,725**	**145,823**
Services for third parties			(9)				-	**(9)**
Total PPP unitary charge			2,051				23,455	**25,506**
Total operating expenditure			**78,140**				**93,180**	**171,320**
Capital costs								
Infrastructure renewals charge			19,454				10,615	**30,069**
Current cost depreciation:								
service activities	44,016	17,880	61,896	3,236	83,415	8,867	95,518	**157,414**
business activities			172				175	**347**
Amortisation of grants			(1,600)				(2,373)	**(3,973)**
Total capital costs			**79,922**				**103,935**	**183,857**
Total operating costs			**158,062**				**197,115**	**355,177**
Analysis of tangible fixed assets – MEAV[23]								
Service activities	811,582	3,086,662	3,898,244	3,047,940	1,163,962	36,013	4,247,915	**8,146,159**
Business activities			1,005				595	**1,600**
Total			**3,899,249**				**4,248,510**	**8,147,759**

[23] 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 2013 in respect of infrastructure assets amounted to £9.3m (2012: £9.9m) for water services and £4.9m (2012: £4.7m) 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 2012	942,008	10,226	3,132,739	44,325	**4,129,298**
Opening balance adjustments	-	-	-	-	**-**
RPI and other adjustments	29,545	336	102,072	1,395	**133,348**
Disposals	(9,180)	(628)	(63)	(1,251)	**(11,122)**
Additions	23,147	-	21,402	2,678	**47,227**
At 31 March 2013	**985,520**	**9,934**	**3,256,150**	**47,147**	**4,298,751**
Depreciation					
At 1 April 2012	(187,823)	(3,378)	(11,683)	(27,165)	**(230,049)**
Opening balance adjustments	-	-	-	-	**-**
RPI and other adjustments	(6,160)	(112)	(383)	(1,227)	**(7,882)**
Disposals	9,178	367	63	1,154	**10,762**
Charge for year	(39,157)	(447)	(39,984)	(4,505)	**(84,093)**
At 31 March 2013	**(223,962)**	**(3,570)**	**(51,987)**	**(31,743)**	**(311,262)**
Net book value at 31 March 2013	**761,558**	**6,364**	**3,204,163**	**15,404**	**3,987,489**
Net book value at 1 April 2012	754,185	6,848	3,121,056	17,160	3,899,249

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 2012	1,386,197	13,429	3,098,588	47,416	**4,545,630**
Opening balance adjustments	(1,093)	-	1,093	-	**-**
RPI and other adjustments	41,131	441	101,230	1,796	**144,598**
Disposals	(58)	(904)	-	(1,752)	**(2,714)**
Additions	71,783	-	61,743	1,914	**135,440**
At 31 March 2013	**1,497,960**	**12,966**	**3,262,654**	**49,374**	**4,822,954**
Depreciation					
At 1 April 2012	(260,301)	(3,982)	-	(32,837)	**(297,120)**
Opening balance adjustments	-	-	-	-	**-**
RPI and other adjustments	(8,539)	(132)	-	(1,058)	**(9,729)**
Disposals	58	527	-	1,615	**2,200**
Charge for year	(60,284)	(604)	(1,277)	(4,637)	**(66,802)**
At 31 March 2013	**(329,066)**	**(4,191)**	**(1,277)**	**(36,917)**	**(371,451)**
Net book value at 31 March 2013	**1,168,894**	**8,775**	**3,261,377**	**12,457**	**4,451,503**
Net book value at 1 April 2012	1,125,896	9,447	3,098,588	14,579	4,248,510

5 Current cost analysis of tangible fixed assets by assets type (continued)

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 2012	2,328,205	23,655	6,231,327	91,741	**8,674,928**
Opening balance adjustments	(1,093)	-	1,093	-	**-**
RPI and other adjustments	70,676	777	203,302	3,191	**277,946**
Disposals	(9,238)	(1,532)	(63)	(3,003)	**(13,836)**
Additions	94,930	-	83,145	4,592	**182,667**
At 31 March 2013	**2,483,480**	**22,900**	**6,518,804**	**96,521**	**9,121,705**
Depreciation					
At 1 April 2012	(448,124)	(7,360)	(11,683)	(60,002)	**(527,169)**
Opening balance adjustments	-	-	-	-	**-**
RPI and other adjustments	(14,699)	(244)	(383)	(2,285)	**(17,611)**
Disposals	9,236	894	63	2,769	**12,962**
Charge for year	(99,441)	(1,051)	(41,261)	(9,142)	**(150,895)**
At 31 March 2013	**(553,028)**	**(7,761)**	**(53,264)**	**(68,660)**	**(682,713)**
Net book value at 31 March 2013	**1,930,452**	**15,139**	**6,465,540**	**27,861**	**8,438,992**
Net book value at 1 April 2012	1,880,081	16,295	6,219,644	31,739	8,147,759

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 2013 per Regulatory Accounts	**6,518,804**
Adjustment to opening balance at 1 April 2012[24]	(5,340,878)
Add back capital contributions	222,395
Infrastructure renewals expenditure capitalised in the year	31,368
Decommissioning of Omega assets under UK GAAP	2,522
IFRS adjustments:	
Difference in treatment of capitalisation of expenditure	(14,152)
Capitalised interest	1,526
Difference in treatment of PPP assets	9,813
De-recognition of assets	(15,328)
At 31 March 2013 per Statutory Accounts	**1,416,070**
Depreciation	
At 31 March 2013 per Regulatory Accounts	**(53,264)**
Depreciation charge for infrastructure expenditure	(12,700)
At 31 March 2013 per Statutory Accounts	**(65,964)**
Net book value	
At 31 March 2013 per Regulatory Accounts	**6,465,540**
Adjustment to opening balance at 1 April 2012	(5,340,878)
Add back capital contributions	222,395
Infrastructure renewals expenditure capitalised in the year	31,368
Decommissioning of Omega assets under UK GAAP	2,522
Depreciation charge for infrastructure expenditure	(12,700)
IFRS adjustments	(18,141)
At 31 March 2013 per Statutory Accounts	**1,350,106**
Infrastructure renewals prepayment	
At 31 March 2013 per Regulatory Accounts	**3,341**
Less infrastructure renewals prepayment	(3,341)
At 31 March 2013 per Statutory Accounts	**-**

[24] 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 2013 £000	At 31 March 2012 £000
Stocks	**2,379**	2,177
Trade debtors		
– measured non-household	**7,596**	7,191
– unmeasured non-household	**402**	3,084
Other trade debtors	**612**	2,084
Measured income accrual	**10,777**	12,393
Prepayments and other debtors	**9,431**	9,025
Trade creditors	**(2,620)**	(11,711)
Deferred income – customer advance receipts	**(1,164)**	(3,768)
Capital creditors	**(56,699)**	(56,206)
Accruals and other creditors	**(52,304)**	(44,772)
	(81,590)	(80,503)

7 Profit and loss reserve

	At 31 March 2013 £000	At 31 March 2012 £000
At 1 April	**(287,995)**	(227,538)
Retained current loss for year	**(56,190)**	(61,913)
FRS 17 actuarial (loss)/gain	**(15,005)**	1,875
Deferred tax on actuarial loss/(gain)	**3,470**	(419)
At 31 March	**(355,720)**	(287,995)

8 Movement on current cost reserve

	At 31 March 2013 £000	At 31 March 2012 £000
At 1 April	**6,342,051**	6,109,339
RPI adjustments:		
Fixed assets	**260,354**	273,081
Grants and third party contributions	**(8,380)**	(7,095)
Working capital	**(2,641)**	(2,824)
Financing	**(30,464)**	(30,450)
At 31 March	**6,560,920**	6,342,051

9 Net debt analysis

	Fixed rate Year to 31 March 2013 £000	**Total Year to 31 March 2013 £000**	Fixed rate Year to 31 March 2012 £000	Total Year to 31 March 2012 £000
Maturity Profile				
Less than one year	**(2,422)**	**(2,422)**	(3,274)	(3,274)
Between one and two years	**(5,668)**	**(5,668)**	(2,700)	(2,700)
Between two and five years	**(8,501)**	**(8,501)**	(10,800)	(10,800)
Between five and twenty years	**(963,502)**	**(963,502)**	(891,066)	(891,066)
More than twenty years	**-**	**-**	(928)	(928)
Total borrowings	**(980,093)**	**(980,093)**	(908,768)	(908,768)
Cash	**9,102**	**9,102**	(2,340)	(2,340)
Short term deposits	**5,300**	**5,300**	-	-
Net debt at 31 March	**(965,691)**	**(965,691)**	(911,108)	(911,108)

10 Reconciliation of historical cost profit / (loss) to current cost loss

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Historical cost profit / (loss) per regulatory accounts	**13,823**	14,413
Less non-appointed activities	**(804)**	(819)
Sub-total historical cost profit / (loss)	**13,019**	13,594
Less difference in profit on disposals	**(31)**	(497)
Working capital adjustment	**2,641**	2,824
Financing adjustment	**30,464**	30,450
Add back historical cost depreciation including infrastructure renewals charge	**75,632**	76,285
Less current cost depreciation	**(150,895)**	(157,761)
Less infrastructure renewals charge	**(30,761)**	(30,069)
Add back historical cost amortisation of grant reserve	**(772)**	(712)
Less current cost amortisation of grant reserve	**4,513**	3,973
Current cost operating loss	**(56,190)**	(61,913)

11a Reconciliation of current cost operating profit to net cash inflow from operating activities for the appointed business

	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Current cost operating profit	**19,872**	2,181
Working capital adjustment	**(2,641)**	(2,824)
Movement in working capital	**595**	(2,122)
Current cost depreciation	**150,895**	157,761
Current cost (profit)/loss on sale of fixed assets	**(303)**	285
Infrastructure renewals charge	**30,761**	30,069
Other non-cash items		
Amortisation of deferred grants and contributions	**(4,513)**	(3,973)
PPP residual asset credits	**(3,303)**	(3,226)
Excess of pension payments over FRS17 charge	**741**	(315)
Movement in provisions and creditors > 1 year	**(11,089)**	1,330
Net cash inflow from operating activities	**181,015**	179,166

11b Analysis of net debt

	1 April 2012 £000	**Cash flows £000**	**Non cash changes £000**	**31 March 2013 £000**
Cash at bank and in hand	(2,340)	11,442	-	9,102
Deposits and investments	-	5,300	-	5,300
	(2,340)	16,742	-	14,402
Debt due within one year	(3,274)	-	852	(2,422)
Debt due after one year (including PPP liability)	(905,494)	(71,325)	(852)	(977,671)
Total	**(911,108)**	**(54,583)**	**-**	**(965,691)**

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.

Since inception, NI Water has drafted the RCV disclosure note for the Regulatory Accounts using actual outturn information. It has been agreed with Utility Regulator that with effect from the year ended 31 March 2013 the RCV will be compiled using the figures assumed in setting prices during the Price Control process. This approach is consistent with RAG 1.04.

The Utility Regulator published the Water and Sewerage Service Price Control 2013-2015 (PC13 Annex F Financing Investment – Final Determination) in December 2012 and this outlined the roll forward of the RCV from the PC10 period. RAG 1.04 states that the RCV reconciliation should be in current year prices and the RCV shown below recalculates the Final Determination (FD) PC13 Annex F roll forward RCV using the most up to date price indexation information available for the year end 31 March 2013.

Within the RCV, the prior year balance has been indexed by the average RPI during the year and the capital expenditure has been indexed by the average Construction Output Prices Index (COPI) made available in the Annual Information Return (AIR 13) guidance issued by the Utility Regulator.

	At 31 March 2013	**At 31 March 2012**
	£'m	**£'m**
Prior Year Closing RCV per PC10 Final Determination *	1,725.4	1,555.7
Indexation and other adjustments	53.3	76.1
Opening RCV	1,778.7	1,631.8
Capital expenditure	159.8	152.5
Infrastructure renewals expenditure	29.7	29.0
Infrastructure renewals charge	(29.7)	(29.0)
Grants and contributions	(4.1)	(3.6)
Depreciation (including capital grants)	(51.6)	(50.5)
Disposal of assets	(4.4)	(4.8)
Closing RCV (pre regulatory adjustments)	1,878.4	1,725.4
Regulatory adjustments	(65.6)	-
Closing RCV **	**1,812.8**	**1,725.4**
Average RCV	1,769.1	1,640.6

12 Regulatory capital value (RCV) (continued)

* includes revision of Final Determination assumptions for RPI and COPI.

** The Regulatory Accounts at 31 March 2012 showed a closing RCV, based on outturn figures, of £1,724.8m as compared to £1,725.4m calculated using the assumed figures within the price setting process.

PC13 Annex F also includes a number of regulatory adjustments to the roll forward of the PC10 RCV at 31 March 2013. When these adjustments are applied to the RCV calculation above, the closing RCV for 2012/13 is as follows:

Regulatory Adjustments for PC10 period	
Revised 2012/13 RCV	1,878.4
Notified Index	(22.0)
Logging up / down	(58.4)
Asset disposals	14.8
Closing 2012/13 RCV post regulatory adjustments	**1,812.8**

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 PC10. 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.

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 2013 as set out on pages 188 to 213 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.

This report is made, on terms that have been agreed, solely to the Company and the Northern Ireland Authority for Utility Regulation ("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.

Respective responsibilities of the NIAUR, the Directors and the auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 126, 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 in the 'Scope of the audit of the Regulatory Accounts' 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 Auditing Practices Board's Ethical Standards for Auditors.

Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

Scope of the audit of the Regulatory Accounts

An audit 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. In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

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).

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the NIAUR and the accounting policies set out on pages 199 to 201, the state of the Company's affairs at 31 March 2013 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.

Emphasis of matter in respect of the 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 Guidelines. Our opinion is not qualified in this regard.

Emphasis of matter regarding 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 189 to 194 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 193 to 194.

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.

Other matters

The nature, form and content of Regulatory Accounts are determined by the NIAUR. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the NIAUR's purposes. Accordingly, we make no such assessment.

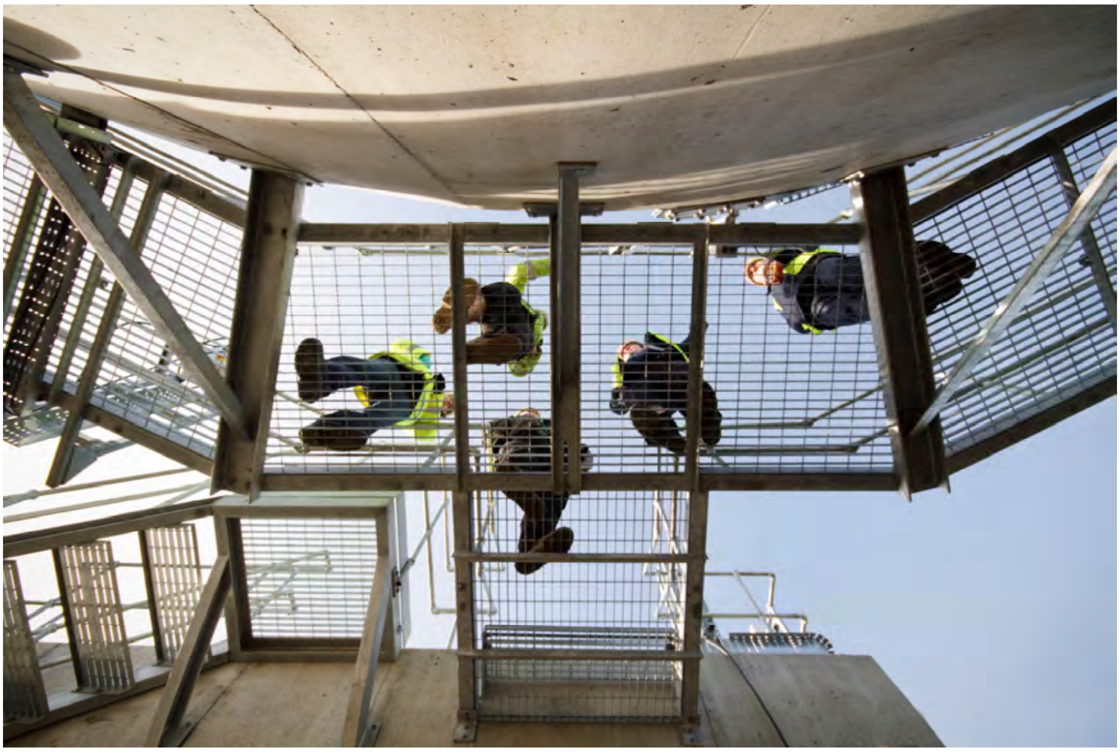
Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2013 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our '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.

KPMG
Chartered Accountants
Belfast
26 June 2013

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 Regulator's web site is the responsibility of the 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.

APPENDICES



Construction phase at Benone Wastewater Treatment Works in Limavady, County L'Derry (Image courtesy of Alan Lavery Photography)

Appendix A – Key Performance Indicators

This appendix outlines our Key Performance Indicators (KPIs). This includes actual performance for 2011/12 and 2012/13 along with the performance targeted for 2013/14. See ***Appendix B*** for an explanation of the KPIs.

	KPI	Target 2011/12	Actual 2011/12	Target 2012/13	Actual 2012/13	Comments on performance	Target 2013/14
	Customers						
1	**Supply interruptions** (DG3) - number of properties experiencing unplanned and un-warned interruptions in excess of (expressed as a percentage of households):						
	6 hours	0.969	0.867	0.939	1.282	Underperformance can primarily be attributed to a burst on the inlet to a Gauge Tank on 15 February 2013, and electricity supply failures and related distribution issues during the period of severe weather in March 2013. The 12 hour and 24 hour targets would have been achieved if the impact of the electricity supply failures was removed.	0.908
					1.067 excluding severe weather		n/a
	12 hours	0.211	0.094	0.202	0.319		0.194
					0.125 excluding severe weather		n/a
	24 hours	0.010	0.002	0.010	0.190		0.010
					0.008 excluding severe weather		n/a
2	**Response to billing contacts** (DG6) - number of billing contacts dealt with within 5 working days expressed as a percentage of total billing contacts (%)	99.90	99.97	99.90	100.09		99.90
3	**Response to written complaints** (DG7) - number of written complaints answered within 10 days as a percentage of total written complaints (%)	98.50	99.27	98.50	99.78		99.25

	KPI	Target 2011/12	Actual 2011/12	Target 2012/13	Actual 2012/13	Comments on performance	Target 2013/14
	Customers (cont'd)						
4	**Billing of Metered Customers** (DG8) – percentage of metered customers receiving bills with metered accounts, who during the year received at least one bill based on a customer or Company meter reading (%)	97.50	97.88	98.50	98.73		98.50
5	**Telephone contact** (DG9)						
	% of calls not abandoned	99.00	99.15	99.0	98.45	The volume of abandoned calls received in June 2012, as a result of the flooding, has had an adverse impact on performance.	99.00
	% of calls not all lines busy	99.90	100.00	99.90	100.00		99.90
	Customer satisfaction score (out of five)	4.70	4.57	4.70	4.54	While the performance was below the target of 4.70. Further analysis will be undertaken in 2013/14 to identify any learning points.	4.70
6	**Inadequate Pressure** (DG2) - number of properties removed from the 'at risk' register due to company action	237	262	255	297		118
7	**Sewer Flooding (DG5) - overload**. Number of properties affected by an incident of internal sewage flooding caused by overload of a sewer (also termed hydraulic incapacity) excluding those incidents resulting from severe weather.	#	15	#	TBC	Methodology changed during PC10	To be replaced by target 9

	KPI	Target 2011/12	Actual 2011/12	Target 2012/13	Actual 2012/13	Comments on performance	Target 2013/14
	Customers (cont'd)						
8	**Sewer flooding (DG5) – other causes**. Number of properties affected by an incident of internal sewage flooding caused by equipment failure in, blockage or collapse of, a sewer (also termed 'other causes')	23	23	23	41	We have proactive maintenance programmes in place to ensure as far as possible its sewer network operates to its optimum and as designed. However, the vast majority of flooding incidents due to 'other causes' result from blockages in our sewer network. Unfortunately a large percentage of these blockages are caused by inappropriate materials being put into the sewer network, something over which we have little control. We are becoming more proactive in making our customers aware of the implications of putting inappropriate materials into the sewer network using various media campaigns and leaflet drops in areas where we have known problems.	To be replaced by target 9
9	**Sewer Flooding (DG5) – 'at risk'**. Number of properties removed from the 'at risk' register by Company action.	23	14	20	66	The capital investment targeted at flooding is dictated by the DG5 register. NI Water completed the development of full reporting capability for internal flooding incidents in April 2011 and met its target of having external and internal historical flood reporting capability in place by April 2013.	23
10	**Leakage** - reduction in overall leakage (million litres per day)	171.00	168.23	168.00	161.75		169.00
	KPI	**Target 2011/12**	**Actual 2011/12**	**Target 2012/13**	**Actual 2012/13**	**Comments on performance**	**Target 2013/14**
	Colleagues						
11	**Health and safety** –number of 'absence related' accidents	9	4	8	6	NI Water's employees have demonstrated a continued commitment to safe behaviours during this reporting year. The company maintains a zero accident ambition.	7
12	**Headcount** - number of posts	1,320	1,306	1,305	1,273		1,289

	KPI	Target 2011/12	Actual 2011/12	Target 2012/13	Actual 2012/13	Comments on performance	Target 2013/14
	Colleagues (cont'd)						
13	**Employee attendance** - %	96.5	97.1	96.7	96.8		96.8
14	**Employee engagement** - response rate to employee survey (%)	65	63	65	#	The next employee survey will take place in 2013/14. The KPI is subject to the design of this survey.	#
	KPI	**12 months ended 31 December 2011***		**12 months ended 31 December 2012***		**Comments on performance**	**12 months ended 31/12/13***
		Target	**Actual**	**Target**	**Actual**		**Target**
	Compliance						
15	**Water quality at the tap** – mean zonal compliance (%)	99.7	99.80	99.7	99.80		99.7
16	**State of the water in the distribution network -** Operational Performance Indicator for Turbidity, Iron and Manganese (%)	99.10	99.31	99.10	98.96	The current Water Mains Rehabilitation Programme is designed to upgrade our distribution mains over a twenty year time span. The programme is the long term solution to iron and turbidity exceedances at the customer tap. In the interim, operational procedures such as flushing and bleeding our system are used to alleviate the problem in discrete areas for short periods of time. The DWI is working closely with NI Water on this issue. All exceedances have been investigated and, where appropriate, action plans have been submitted to the DWI.	99.10
17	**Wastewater quality** – Wastewater treatment works serving greater than 250 population equivalent achieving compliance with Water Order Consents expressed as a						
	(a) percentage of works (%)	85.83	93.28	88.20	93.31		88.60
	(b) percentage of population equivalent (%)	94.83	95.95	96.50	98.61		97.20

	KPI	12 months ended 31 December 2011*		12 months ended 31 December 2012*		Comments on performance	12 months ended 31/12/13*
		Target	Actual	Target	Actual		Target
	Compliance (cont'd)						
18	**Wastewater Treatment Works passing UWWTW numeric consents** (infraction risk) %	91.14	96.20	94.90	97.47		To be merged with target 17
19	**Pollution incidents** (high/medium) - number of pollution incidents attributed to NI Water	51	44	48	18		46
		Target 2011/12	Actual 2011/12	Target 2012/13	Actual 2012/13		Target 2013/14
20	**Capital Works Programme** - complete 90% of schemes costing over £250k, scheduled to start in the Capital Works Programme	90.00	92.86	90.00	91.23		To be replaced by a nominated outputs target
	Cash						
21	**Operating margin** - excluding exceptionals (%)	34.7	29.0	34.5	34.5	2011/12 performance adversely impacted by lower levels of consumption. This was offset in part by the operational cost efficiency savings.	To be replaced by an operating profit target
22	**Billing**						
	(a) percentage of measured bills issued within 5 working days of a meter reading excluding any exception readings that require investigation (%)	98	96.4	95	97		To be replaced by target 23
	(b) percentage of measured bills issued within 5 working days of a meter including exception readings needing investigation (%)	95	94.8	95	95		
23	**Customer debt outstanding** - debtor days	83	82	87	79		85

Key:

- Achieved
- Failed
- Under Construction / replaced

* Targets 15 to 19 are measured on a calendar year basis (1 January to 31 December). The remaining targets are measured on a financial year basis (1 April to 31 March).

Target not measured / no target.

Appendix B – Explanation of Key Performance Indicators

Target 1 – Supply interruptions (DG3)

Purpose - the purpose of this KPI is to measure the percentage of properties that experience an unplanned interruption to supply greater than 6 hours, 12 hours and 24 hours.

Parameters of target - defined as the percentage of overall properties connected to the water distribution system that is affected by unplanned interruptions in water supply lasting greater than 6 hours, 12 hours and 24 hours. Unplanned interruptions exclude interruptions caused by third parties and overruns of planned interruptions.

Calculation of target - detailed interruption data pertaining to each interruption to supply is collected and recorded on a spread sheet, where it is checked for accuracy and categorised according to the type and duration of the interruption. Information pertaining to unplanned interruptions to supply greater than 6 hours, 12 hours and 24 hours is presented in a form similar to that of the Annual Information Return table. Corresponding percentages are calculated and presented against KPI targets each month.

Assumptions and limitations - there are two methodologies for recording the number of properties affected by an interruption. In general the number of properties is counted on site during the course of the repair. Alternatively, mainly for larger interruptions, house numbers are recorded using a Geographic Information System (GIS).

Target 2 – Response to Billing Contacts (DG6)

Purpose - the purpose of this KPI is to measure the total number of billing contacts received in the reporting year to date and time taken to respond to them.

Parameters of target - the term billing contact refers to any communication; written, telephone or direct contact with customers or their representative about billing issues. These include:

- notification of change of name or address;
- requests to change payment methods;
- queries about how charges are calculated and applied; and
- telephone complaints about billing issues.

Measurement of target - calculated as the number of billing contacts answered within 5 working days as a percentage of total billing contacts received in the year to date. Day of receipt of the contact is treated as day zero and the next working day as day one. This differs from our monthly Service Level Agreement (SLA) contractor reporting, which is expressed as a percentage over total contacts closed.

Sources, assumptions and limitations - telephone customer contact activities are managed through NI Water's Customer Relations Centre with written customer contact activities managed by NI Water's Account Services Team. Both areas are then validated and reported on by Customer Services Delivery Directorate.

Target 3 – Response to Written Complaints (DG7)

Purpose - to measure the number of written complaints received during the year and the time taken to respond to them.

Parameters of target - a written complaint is any written letter, fax or e-mail expressing a dissatisfaction, however mildly worded, that draws attention to an action or inaction of NI Water, or a service provided by NI Water, agent or contractor, that has fallen short of the correspondent's expectations.

Measurement of target - calculated as the number of written complaints answered within 10 working days, as a percentage of total complaints received in the year. The day of receipt of the contact is treated as day zero and the next working day as day one. Written customer contact activities are managed by NI Water Account Services, then validated and reported on by the Customer Services Delivery Directorate. This differs from our monthly SLA reporting, which is expressed as a percentage over total complaints closed.

Sources, assumptions and limitations - implementation of a Customer Service Improvement Programme, linked to Business Improvement, has consolidated the new Customer Relations Centre systems and streamlined the interfaces with operational service delivery. Through this programme, NI Water is improving the service provided in response to queries and resolving customer issues. In all cases the aim is to give a prompt, courteous and professional response.

Target 4 – Billing of Metered Customers (DG8)

Purpose - this covers the proportion of customers who receive bills for metered accounts during the year based on actual meter readings and the proportion based on estimates.

Parameters of target - this measure is concerned with monitoring the service customers receive during the year. By issuing the customer with a bill based on actual meter read, NI Water can prevent customer dissatisfaction due to inaccuracy.

Measurement of target - the KPI is calculated by subtracting all excluded meters from the total meter stock to get the total measured meters against those meters that have actually been read during the year by either the customer or the Company on a cumulative basis.

Sources, assumptions and limitations - NI Water can exclude any unusual accounts or unusual circumstances that would complicate the measure. These exclusions are:

- charged on another basis;
- properties occupied for less than six months;
- complex accounts;
- void properties; and
- test meters.

Target 5 – Telephone Contact (DG9)

Purpose - the aim of this indicator is to identify the ease with which customers can make telephone contact with NI Water via the Principal Advertised Customer Contact (PACC) Points during office hours and their satisfaction with the way the Company handles their telephone call.

Parameters of target - Utility Regulator Guidance for Annual Information Return reporting requires that the DG9 target is split to cover 'all lines busy', 'calls abandoned' and 'call handling satisfaction'. The 'all lines busy' category measures the degree of difficulty customers experience in being able to connect with a Company agent. The 'calls abandoned' category is to capture the total number of callers who abandon their call before it is substantively answered by the Company.

Measurement of target - the total calls received to PACC points are recorded monthly and reviewed to establish the volume answered or abandoned by either an agent or automated system using system generated reports. All lines busy (calls that receive engaged tones or are advised that NI Water is unable to take their call) are also recorded on a monthly basis. Total call handling satisfaction is measured by means of a survey conducted by a third party provider. The total number of telephone complaints are also recorded. This differs slightly from our monthly SLA contractor reporting, in that permitted exclusions noted below are subtracted at the year end.

Sources, assumptions and limitations - the indicator is intended to monitor incoming telephone traffic which can be regarded as originating from NI Water's customer base. NI Water can exclude:

- calls from contractors and suppliers, or calls made by a contractor's field operatives to contractor's offices e.g. switchboard calls;
- calls to organisations acting as agents for NI Water, e.g. debt collection agencies are excluded from the measure, unless they represent a principal customer contact point for NI Water; and
- calls to the direct lines of named individuals or specialist sections, except where the specialist section (such as Debt Recovery) specifically prints its Direct Dial numbers on NI Water's letterhead.

Target 6 – Inadequate pressure

Purpose - the purpose of this KPI is to measure the number of properties which have received or continue to receive pressure and flow below the reference level and have been entered in the DG2 (low pressure) Register.

Parameters of target - the target refers to a reduction in the number of properties experiencing pressure and flow below the required standard of service due to Company action. Properties can be removed from the DG2 Register when they consistently receive pressure and flow above the reference level.

Measurement of target - properties are assessed against a reference level of 10 metres head and a flow of 9 litres per minute measured at the customer's main stop tap. To facilitate measurement, a surrogate head of 15 metres has been taken in the adjacent water main.

Sources, assumptions and limitations - properties currently assessed to be below the reference level were originally derived from a combination of zonal studies and field pressure measurement studies. Annual targets for the removal of properties from the DG2 register, through Company action, are as set in the Final Determination for PC10.

Target 7 – Sewer flooding (overload)

Purpose - the purpose of this KPI is to measure the number of properties affected by an incident of internal sewage flooding caused by an overload of a sewer (also termed hydraulic capacity) excluding those incidents resulting from severe weather.

Parameters of target - number of properties affected by an incident of internal sewerage flooding caused by an overload of a sewer (also termed hydraulic incapacity), excluding those incidents resulting from severe weather.

Measurement of target - the register is held on an Oracle database represented on the Corporate Asset Register. The database is maintained and updated by NI Water's asset management team. Reporting for internal flooding is made using the internal flooding Oracle database.

Assumptions and limitations - this process was under development. As the quality of information improved during the PC10 period, NI Water was able to set service targets for 2013 and beyond.

Target 8 – Sewer flooding (other causes)

Purpose - the purpose of this KPI is to have a readily available record of each individual property affected by an incident of **internal** sewage flooding caused by equipment failure in, blockage or collapse of, a sewer (also termed other causes), thus meeting regulatory requirements.

Parameters of target - number of properties affected by an incident of internal sewage flooding, caused by equipment failures, blockages or collapses of a sewer (collectively termed other causes).

Measurement of target - a download of internal sewer flooding records is obtained from the Ellipse system on a month by month basis. Investigations are carried out for each reported incident and those properties found not to be flooded, after investigation using information from the contractor, flooding incident report forms, field manager reports and contacting the customers directly, are removed and the remaining properties are combined to give the yearly total.

Sources, assumptions and limitations - we have assumed that a single incident includes recorded complaints from the same property on the same day or within three days.

Target 9 – Sewer flooding (at risk)

Purpose - the purpose of this KPI is to measure the number of properties removed from the 'at risk' Register of internal flooding by sewage, caused by overload, once in 20 years, or more frequently, against the outputs specified in the PC10 Final Determination.

Parameters of target - number of properties removed from the 'at risk' Register of internal flooding by sewage, caused by overload of a sewer (also termed hydraulic incapacity) excluding those incidents resulting from severe weather, once in 20 years or more frequently.

Measurement of target - most removals from the register will be as a result of a capital scheme, however all removals have to be approved by the DG5 panel of experts. These are key internal personnel who examine the evidence and approve or reject a request for removal of a property from the register. Measurement is the number of removals approved by the DG5 panel.

Sources, Assumptions and limitations - NI Water has developed a register of properties 'at risk' of internal flooding by sewage. A structured prioritised programme of capital interventions will be carried out in the PC13 and PC15 periods to remove properties from the risk of internal flooding by sewage, caused by overload, once in 20 years, or more frequently.

Target 10 – Leakage

Purpose - the purpose of this target is to determine the volume of water lost from the water supply network which is leakage from both Company and domestic pipes or unaccounted for water.

Parameters of target - this target relates to the reduction in the level of leakage from the water distribution system.

Measurement of target - the annual average leakage figure is based on the end of year water balance and includes the key components of water produced into distribution, metered consumption, and domestic consumption estimates.

Sources, assumptions and limitations - leakage is an estimate. It is based on the assessment of various demand components as well as an estimate of bottom up leakage utilising leakage management software to determine night flows. Both internal and external sources of data are utilised and a confidence grade is applied to each estimate.

Target 11 – Health and safety

Purpose - to monitor accident trends and allow NI Water to take positive action to reduce accidents, both for NI Water staff, and for contractors working for NI Water.

Parameters of target - this target includes any accident resulting from NI Water's undertakings which leads to more than 3 days absence from work, following the date of the accident. NI Water's health and safety accident reporting procedures require staff to report accidents within 24 hours of occurrence.

Measurement of target - the 2012/13 target is a reduction on the 2011/12 target and is in line with NI Water's 'Zero Accident Ambition'. Health and Safety is reported to the NI Water Board each month and taken as the first item on the Board agenda.

Sources, assumptions and limitations - health and safety incidents are reported by line managers on DATIX, the NI Water approved risk management software package, from which health and safety statistics are compiled.

Target 12 – Headcount

Purpose - to measure and monitor the headcount expressed as a Full Time Equivalent (FTE) for all permanent and temporary employees.

Parameters of target - agreed reduction in FTE associated with permanent and temporary employees.

Measurement of target - agreed reduction in FTE based on information supplied by the Oracle HR IT Management System.

Sources, assumptions and limitations - data is provided by the Oracle payroll system.

Target 13 – Employee attendance

Purpose - to monitor NI Water employees' attendance.

Parameters of target - based on the number of permanent full and part time employees, their total working days available, and their attendance at work.

Measurement of target - based upon the number of days an employee attends for work against the total number of days available for work, expressed as a percentage.

Sources, assumptions and limitations - this is based upon data provided by the Oracle HR IT system and excludes temporary employees.

Target 14 – Employee Engagement

Purpose - the employee engagement survey is designed to give a real insight to how we are doing against the goal – 'We want NI Water to be a truly great place to work', and how we are coping with the transformation of our organisation. The survey offers a standardised method of measuring our progress that can facilitate benchmarking with other comparator organisations.

Parameters of target - the response rate for each survey will be measured. However, the target is a combined measurement of a number of critical statements for every respondent, which when analysed across all the responses equates to a corporate engagement score out of 100. The target is set to measure the improvement in engagement of those employees that were previously 'neutral', to a position of 'agree', which will be based on the previous response rates in the survey.

Measurement of target - the engagement score is be measured against a number of elements as determined by the provider.

Sources, assumptions and limitations - the survey is carried out through an online and paper exercise as there is a need to continue with the distribution of paper surveys to the front line employees who currently do not have online access to the survey.

Target 15 – water quality at the tap (Mean Zonal Compliance)

Purpose - the purpose of the Mean Zonal Compliance (MZC) assessment is to monitor regulatory compliance at the customer's tap. MZC is an industry agreed methodology and allows NI Water to benchmark performance against other water companies.

Parameters of target - MZC is a statistical measure of compliance with Drinking Water Standards as used by the DWI.

Measurement of target - for any one zone, the zonal compliance for any one parameter is the percentage of samples meeting the prescribed concentration or value. For any parameter, mean zonal compliance is the mean of the zonal compliance values for all zones in Northern Ireland. Overall MZC is the mean or average of the MZC values for all parameters as defined by the DWI.

Sources, assumptions and limitations - compliance assessment is facilitated by a random sample programme which means that a specified number of samples are collected from randomly selected addresses. The MZC comparison year on year is dependant on selecting a consistent representation of customer addresses each year. MZC, as measured at the customer tap, continues to improve despite changes to drinking water quality regulations. MZC is useful in providing information on trends or can be used as indicators from which comparisons can be made.

Target 16 – state of the water in the distribution network - operational performance indicator for Turbidity, Iron and Manganese (OPITIM)

Purpose - the purpose of OPITIM is to monitor the condition of our distribution system in terms of Turbidity, Iron and Manganese at the customer's tap.

Parameters of target - OPITIM is the mean or average of the mean zonal compliance values for Turbidity, Iron and Manganese and is the Operational Performance Index used by NI Water.

Measurement of target - as per target 15, but only for Turbidity, Iron and Manganese parameters. The random nature of the sample programme is most evident in measurement of Iron, which is one of only three parameters measured in OPI TIM. The OPI TIM water quality performance measure is inherently variable, particularly whilst water mains rehabilitation work is on-going in the distribution system. The measure was designed to assess distribution systems in England and Wales, where mains rehabilitation is largely complete. For this reason a three year span should be considered when assessing the improvement trend.

Target 17(a) and 17(b) – Wastewater quality

Purpose - the purpose is to monitor progress on compliance of those Wastewater Treatment Works (WWTWs) serving, more than 250 population equivalent, with Water Order Consent numeric standards and the percentage of the population equivalent being served by compliant WWTWs.

Parameters of target - target 17(a) relates to the percentage of the 239 WWTWs whose effluent quality complies with the Water Order Consent discharge standards set by NIEA. Target 17(b) relates to performance of the same WWTWs but measurement is against the population equivalent served by compliant works. Performance is assessed on a calendar year basis.

Measurement of target - samples are taken at each WWTW relating to the population equivalent served by the works. Our in-house laboratory analyses samples for those parameters included in the Water Order Consent. Compliance for each WWTWs is assessed on a parameter basis using the Urban Wastewater Treatment Regulations (NI) 1995 Look-up Table. This statistically derived methodology permits a certain number of exceedances, based on the number of samples taken, for each sanitary parameter included in the Water Order Consent. When this number of exceedances is surpassed, a works is deemed to fail. A number of WWTWs have upper tier limits on the parameters included in the Water Order Consent discharge standards and one exceedance of these values will result in the failure of a works. For target 17(a), at the end of the calendar year the number of works which have passed is calculated as a percentage of the total number of works to determine if the target is met. For target 17(b), the population equivalent served by compliant works as a percentage of the total population equivalent served is calculated. Upper tier failures are excluded in this calculation, as agreed with the Utility Regulator.

Sources, assumptions and limitations - the Water Order Consents are issued by NIEA who make the assessment of which WWTWs meet the standards of the Water Order Consents. The population equivalent is based on our annual assessment for NI Water operated WWTWs as agreed with NIEA. Population equivalent figures for PPP operated works are provided by NIEA.

Target 18 – Wastewater Treatment Works passing Urban Wastewater Treatment Directive numeric consents

Purpose - to monitor progress on compliance of those WWTWs subject to the numeric standards of the Urban Wastewater Treatment Regulations.

Parameters of target - the target relates to the percentage of the 79 WWTWs which comply with the numeric standards of the Urban Wastewater Treatment Regulations.

Measurement of target - representative samples are taken at each qualifying WWTWs using automatic sampling equipment. NI Water's laboratories analyse the samples for those parameters set out in the Urban Wastewater Treatment Regulations. Compliance for each WWTWs is assessed on a parameter basis using the look-up tables of the Regulations. This statistically derived methodology permits a certain number of exceedances for each parameter. When this is surpassed a WWTWs is deemed to fail. Overall compliance is calculated as the percentage of the WWTWs meeting the numeric standards.

Sources, assumptions and limitations - the qualifying WWTWs are determined in consultation with NIEA who make the assessment of the number of WWTWs meeting the standards of the Urban Wastewater Treatment Regulations.

Target 19 – Pollution incidents

Purpose - to provide a means of monitoring the number of high and medium category water pollution incidents attributed to NI Water by NIEA.

Parameters of target - the target relates to the number of high and medium category water pollution incidents attributed to NI Water by NIEA in a calendar year. The target is set on an annual basis, taking into account annual fluctuations in pollution incident numbers.

Measurement of target - NIEA provide a quarterly audit report indicating the number of high, medium and low pollution category incidents that they have attributed to NI Water. The number of high and medium pollution incidents attributed to NI Water is based on NIEA classifications. NI Water can challenge the NIEA initial classifications and audited samples relating to the 2012 outturn.

Sources, assumptions and limitations - the compliance outturn is reported from the NIEA annual audited figures.

Target 20 – Capital works programme

Purpose - to provide a means of monitoring the progress of the 2012/13 capital works programme in terms of timing and expenditure.

Parameters of target - target relates to the achievement of completion dates for projects costing more than £250,000 included in the 2012/13 capital works programme.

Measurement of target - the target relates to schemes completed during 2012/13. Information is obtained from the project sponsor responsible for each project.

Sources, assumptions and limitations - projects are limited to those with a total estimated cost greater than £250,000. The target for 2012/13 was 90% completion.

Target 21 – Operating margin

Purpose - the operating margin target measures operating profitability. The higher the margin, the greater the control of operating costs to leave profits to finance tax payments, reinvestment and dividends.

Parameters of target - the operating margin excludes exceptional costs (early departure and business improvement costs), interest, tax and dividend payments.

Measurement of target - the target is calculated as the IFRS operating profit before interest, tax and dividends (after adjustment for early departure and business improvement costs) divided by total revenue.

Sources, assumptions and limitations - any exceptional costs are excluded from the target as they are deemed to be non-recurring. The target was measured on a UK GAAP basis until 2011/12.

Target 22(a) – Billing

(a) percentage of measured bills issued within 5 working days of a meter reading **excluding** any exception readings that require investigation.

Purpose - target 22(a) measures the first part of the cash cycle, the length of time it takes to issue bills to customers, excluding exception readings that require investigation, and highlight any delay in processes. The aim of this measure is to ensure that our customers receive bills on a timely basis, minimise the number of meter reading investigations and ensure timely upload of reads which may delay the issuing of invoices.

Parameters of Target - target 22(a) for 2012/13 was 95%.

Measurement of target - calculate the percentage of bills issued within five days of the meter reading, excluding any exception readings that require investigation.

Sources, assumptions and limitations - to maintain satisfactory levels of customer service as well as timely notification of the customer's consumption, it is important invoices are issued on a timely basis. The unmeasured annual bill run is excluded from this measure. The achievement of this target is dependent on the performance of the meter reading team and the outsourced partner handling customer billing and collections.

Target 22(b) – Billing

(b) percentage of measured bills issued within 5 working days of a meter reading **including** any exception readings that require investigation.

Purpose - see target 22(a).

Parameters of Target - target 22(b) for 2012/13 was 95%.

Measurement of target - calculate the percentage of bills issued within five days of the meter reading, **including** any exception readings that require investigation.

Sources, assumptions and limitations – see target 22(a).

Target 23 – Customer debt outstanding (debtor days)

Purpose - this target measures the second part of the cash cycle, the speed of collection of amounts billed. Debtor days is used to measure the average number of days' worth of sales remaining outstanding at a point in time. The annual target measures the speed of collection of amounts billed.

Parameters of Target - target is the number of days' credit sales (water, sewerage and trade effluent) outstanding at the date of measurement.

Measurement of target - the debtor days calculation uses the monthly billing total for measured water, sewerage and trade effluent. The total debt figure is the accounts receivable total for water, sewerage and trade effluent. The total debt at the end of the year is divided by the income billed in the year, and then multiplied by 365 to calculate debtor days.

Sources, assumptions and limitations

Billing profiles
There are considerable variations in billing each month due to the 6 monthly billing profiles, which can lead to fluctuations in debtor days.

Continued supply to non-payers
In the majority of cases, NI Water cannot disconnect (due to domestic elements on the supply) so debt may continue to build up. This situation is unique to the utility industry.

Write off policy
Debts are only written off once confirmed as uncollectible, such as insolvencies. There is a lengthy approval process to write off any other debt.

Appendix C – Report by KPMG to Northern Ireland Water Limited on Regularity

1 Introduction

1.1 This report explains the current status of the Company's progress in respect of the issues leading to the qualification of the 2010/11 financial statements on the grounds of irregularity of expenditure. Our opinion is not qualified in this respect in the current year.

2 Background

2.1 NI Water was established on 1 April 2007 as a Government owned company with the Department for Regional Development ("DRD") as the sole shareholder. NI Water is subject to companies' legislation. NI Water was appointed under the Water and Sewerage Services (Northern Ireland) Order 2006 as the provider of water and sewerage services in Northern Ireland, operating under licence from the Northern Ireland Authority for Utility Regulation.

2.2 In addition to the requirements of companies' legislation, the DRD established particular governance arrangements for NI Water which allowed the DRD to act in accordance with the Shareholder Executive's approach for public sector shareholdings. The DRD Accounting Officer holds ultimate responsibility for the DRD's shareholding in NI Water. In meeting this responsibility, governance arrangements were agreed with NI Water. This included appointing the Chief Executive as Accounting Officer for NI Water. It also included financial delegations where limits were set for certain transactions above which Shareholder approval was required. It also required that NI Water would comply with relevant procurement guidelines (DFP guidance, DRD guidance and Utilities Contract Regulations).

2.3 Funding from the DRD to NI Water is in the form of revenue subsidy (NI Water's main source of income), some 75 percent of its income, and the issue of capital loan notes for investment in water and sewerage infrastructure. In 2010/11 the DRD's subsidy to NI Water was £263 million and capital loan notes of some £110 million were issued.

2.4 As a Company governed by the Companies Act 2006 requirements, NI Water is not directly required to obtain a regularity opinion, however given that NI Water is in receipt of significant public expenditure subsidy following the deferral of domestic water charging, the DRD issued a direction to NI Water dated 18 November 2010 requesting a regularity opinion be obtained for the 2010/11 financial year.

2.5 The 2010/11 regularity opinion was qualified in the amount of £4.7m due to irregular expenditure relating to 158 items.

2.6 The 2011/12 regularity opinion was not qualified and no instances of systemic non-compliance were identified.

3 Actions taken by management

3.1 Following the issues identified in prior years, NI Water instigated a series of measures aimed at regularising expenditure and ensuring compliance with financial delegations and procurement guidelines in respect of future transactions. These steps included:

- all quotation purchase requisitions are challenged for compliance to procurement procedures;
- introduction of a Procurement for Goods and Services Procedure;

- training for all Directors and senior managers in the delegations and procurement procedures;
- procurement activity and compliance presented as a standing Board agenda item;
- initial review of all off-contract expenditure and presentation of findings to the Audit Committee and Board;
- establishment of a project board to oversee a detailed action plan to regularise expenditure with a focus on addressing key issues within the first phase;
- regular review of off-contract expenditure;
- rejecting quotation purchase requisitions where a contract should be used;
- establishment of a Procurement Committee to review key procurement controls;
- single tender actions and contract extensions recorded in a contracts database and reported to the Procurement Committee, Board and the DRD; and
- issues in retendering contracts due to expire within 9 months are reported to the Executive Committee and the DRD.

3.2 An action plan has been developed to ensure that transactions with the suppliers identified in the initial review of goods and services off-contract expenditure (3.1 above) comply with financial delegations and procurement guidelines. The regularisation plan was completed during the year and the total expenditure classified as non-compliant prior to regularisation was approximately £155k and related to 23 suppliers.

4 Review of new contracts / extensions in the year

4.1 During our current year's audit work, which involved the sampling of new contracts, contract extensions and single tender actions, we noted no breaches of internal policy.

4.2 Breaches of internal policy (as opposed to breach of legislation or delegated financial limits) are generally deemed to be non-compliance rather than irregularity, however in the event that such non-compliance is evidence of systemic failure this could be deemed to be irregular. Based on our testing identified above, and on the system of control operating in this area in the current year, we have not identified any instances of systemic failure. No items of irregular expenditure have been identified in our sampling during the year. We do not intend to qualify our opinion on regularity. We are however making a report to update the users of the accounts on the current status of the regularisation programme.

5 Conclusion

5.1 In forming our opinion on the 2012/13 Northern Ireland Water Limited Statutory Accounts, we are required to confirm whether in all material respects the expenditure (disbursed) and income (received) have been applied to the purposes intended by the DRD as set out in their direction to the company of 18 November 2010 and the financial transactions conform to the authorities which govern them.

5.2 On the basis of our findings above, and in respect of the work undertaken in the year, we have not identified any new contracts in the year that do not conform to the authorities that govern them.

5.3 We are satisfied that, in all material respects, the expenditure (disbursed) and income (received) have been applied to the purposes intended by the DRD as set out in their direction to the Company of 18 November 2010 and the financial transactions conform to the authorities which govern them.

Arthur O'Brien
for and on behalf of KPMG
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26 June 2013

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Don't waste it

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