Annual Report
2007/08

About this report

Northern Ireland Water ("NI Water") is delighted to present its first Annual Report for the year ended 31 March 2008. This report sets out the performance for year one of our Strategic Business Plan (2007-10). The report also provides a comprehensive analysis of our current business and describes significant industry trends that are likely to influence future prospects. We hope that this report will be of use to all our stakeholders and would welcome feedback to develop our future reporting.

Fofanny Dam in the Mourne mountains

Contents

Operating and Financial review[1]

1 Cautionary Statement: the Operating and Financial 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 should be construed as a profit forecast.

Highlights... our first year

What we do…

NI Water is one of Northern Ireland's largest companies and responsible for the delivery of water and sewerage services in Northern Ireland. During 2007/08 NI Water:

795,000 households

Delivered clean safe drinking water to approximately 795,000 households and businesses;

614 million

Supplied 614 million litres of good quality drinking water every day to customers through more than 26,500 km of water mains;

134 million

Collected 134 million cubic metres of wastewater from 660,000 businesses and households connected to the sewerage system; and

14,500 km

Transported sewage through approximately 14,500 km of sewers to works where it was treated and disposed of safely.

Our aim…

"NI Water will become a customer-focussed business which cost effectively offers quality, responsive services."

Our achievements…

NI Water was formed on 1 April 2007 and has taken great strides forward in revolutionising the local water industry. We are already well on target to deliver the substantial service, environmental and financial improvements. These achievements allow us to look forward to the future with confidence, excitement and focus in the knowledge that we play a vital role in every aspect of life in Northern Ireland.

Customers… delivering high-quality customer services

- Only 0.25% of households experienced supply interruptions lasting more than 12 hours
- 94.78% of telephone calls answered within 30 seconds
- Launched a Customer Charter and new Codes of Practice

Cash… creating value for money through a sustainable service

- Delivered operational cost efficiencies of £29.8m from a 2003/04 base[1]
- Delivered capital cost efficiencies of 2.1% of the total capital programme[1]
- Leakage reduced for the sixth consecutive year[2]

People… building the capacity to deliver

- Absence related accidents reduced to 16
- Employer / employee promise launched
- Implemented the staff reduction programme

Compliance… investing for the future

- Invested at a rate of £1m per working day
- Exceeded our Operational Performance Indicator ("OPI") for drinking water quality achieving 98.98%
- Exceeded our wastewater compliance target with over 84%[3] of customers served by compliant works

External stakeholders… building strong relationships and operating responsibly

- Worked within the requirements of our Regulatory Licence and Shareholder Governance Letter
- Agreed the quality programme with our Environmental Regulator
- Implemented the complaints procedure in conjunction with NIAUR[4] and CCNI[5]

1 Refer to Annex A on page 116
2 Subject to final validation by the Reporter (a professional commentator and certifier) and agreement of NIAUR
3 Subject to review by Environment and Heritage Service ("EHS")
4 Northern Ireland Authority for Utility Regulation ("NIAUR") - the "Utility Regulator"
5 Consumer Council for Northern Ireland ("CCNI")

Chairman's statement

Shaping the future of the water industry in Northern Ireland is arguably one of the most challenging jobs facing a Company in this sector anywhere in the world and it is a task that is fundamental to the future economic and social well-being of all the people of this regional economy.

NI Water carries out this work in a context of intense and legitimate scrutiny from various stakeholders, not the least of which is its Shareholder, the Department for Regional Development ("DRD"), together with the Regional Development Committee.

Looking on are the people of Northern Ireland, business owners and politicians who understandably want a world-class service, delivered by a Company operating at industry-leading levels of efficiency and demonstrating value for money. All of these groups should be reassured that the management and staff of NI Water similarly want nothing less.

The past 12 months have been characterised by intense criticism and uncertainty as an organisation which used to be part of the civil service, began to transform itself into a government owned company seeking to operate in a similar way to leading utility companies around the world. The decision by Government to instigate this change came because it took the view that this was the most appropriate way to deliver the value for money that people expect and achieve the levels of efficiency that are needed.

We are only at the beginning of this process. NI Water now enters a challenging period in its development. The work of the Independent Water Review Panel introduced some much needed clarity into the process and gave us a better picture of how we will deliver the high quality water and wastewater systems that Northern Ireland requires to meet the demands of a growing 21st Century economy. Within a demanding regulatory environment, our focus now has to be on creating significantly improved efficiencies in our business, while implementing a more customer centric ethos.

This will mean setting the bar high. While meeting our regulatory requirements and working with our Shareholder, DRD, and other stakeholders to ensure Northern Ireland's domestic and corporate users of water and wastewater services have the service they deserve, we must also become an organisation where everyone feels a responsibility towards improving the customer experience. We must raise customers' expectations of the service that NI Water provides.

The scale of this challenge should not be underestimated. Northern Ireland has inherited a legacy of acute underinvestment in water and wastewater. As a consequence, there is a considerable gap between our performance and that of the rest of the Water Industry in the UK. However, the team of talented and motivated people that makes up NI Water is determined to close that gap over coming years.

Much has already been achieved this year but regrettably, mistakes too have been made. One issue in recent months attracted particular criticism, namely the revision of the apportionment of costs between domestic and non-domestic customers. Our failing here was our inability to properly communicate and explain what was going on in a timely fashion, not in our managerial or budgetary competence. Indeed, it was the vigilance of our team that discovered the use of incorrect data and caused us to alert our key stakeholders to the problem.

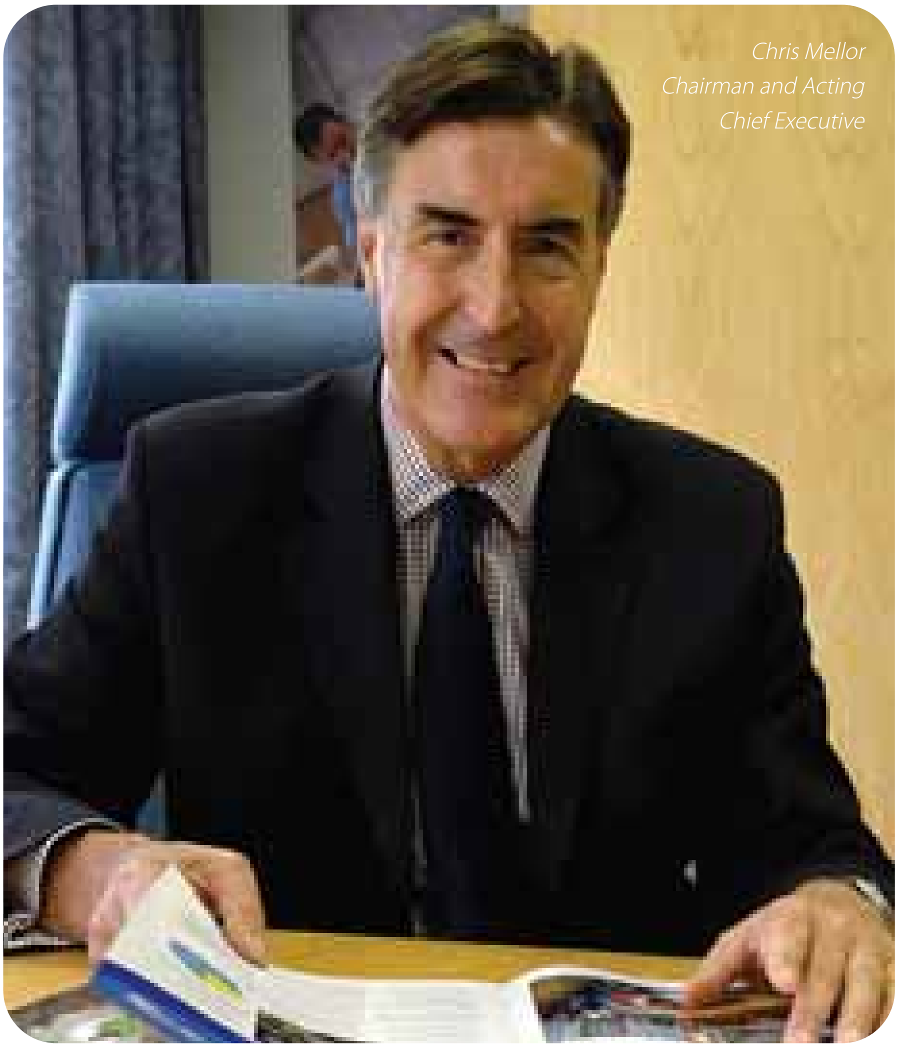
However, I fully understand the effect this issue has had on public trust and our relationship with key stakeholders. I am determined that lessons will be learned from this experience and that we will emerge from this period a more effective and efficient organisation.

"We have delivered against the majority of our commitments for 2007/08."

The fact is that we are already well on target to deliver the substantial service, environmental and financial improvements required of us as a Company and my team can take pride in that. We have delivered against the majority of our commitments for 2007/08 as set out in our three year Strategic Business Plan (2007-10) and laid good foundations for the future. We will see an investment of some £778m in water and waste water infrastructure by the time we complete our 3 year plan in March 2010. The £100m Belfast Sewers Project will be finished by 2010 and work continues apace on upgrading the water treatment and distribution systems as well as the waste water infrastructure in the region.

While the manner in which the drinking water and waste water systems are funded is a matter for Government, at the time of writing the Company is preparing for the introduction of water charging in April 2009, as recommended by the Independent Water Review Panel. We do so in the full knowledge that the introduction of charging is unpopular in Northern Ireland and will only happen at the instigation and with the political support of the Northern Ireland Executive.

All of this is happening as we rapidly approach the implementation of the 2010 Price Control ("PC10") which will set the objectives, required funding and resultant customer bills for the two-year period between April 2010 and March 2012.



Chris Mellor
Chairman and Acting Chief Executive

Despite the many and varied challenges we face, NI Water is determined to give its customers a water and waste water system comparable with the best in the world. I don't say that lightly and I believe it to be true. Together we will make it happen.

Finally, I would like to thank everyone in NI Water for all their hard work and continued commitment.

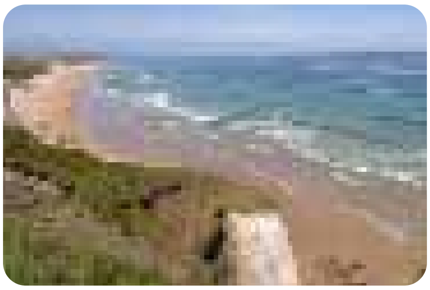
Chris Mellor
Chairman and Acting Chief Executive

3 July 2008

APRIL 2007 - Northern Ireland Water Service becomes NI Water

MAY 2007 - Opening of Silent Valley Visitor Centre

JUNE 2007 - Publication of Drinking Water Quality Report



JULY 2007 - Eight Blue Flag beaches awarded

AUGUST 2007 - Deepest open excavation in the history of Belfast as part of the £100 million Belfast Sewers Project

SEPTEMBER 2007 - Employer / Employee Promise launched

OCTOBER 2007 - Launch of NI Water's Schools Competition

NOVEMBER 2007 - Roll out of Mobile Work Management programme

DECEMBER 2007 - Fofanny Water Treatment Works wins the Environmental Award at the UK Utility Awards

JANUARY 2008 - Publication of the Strategic Business Plan Interim Report (April-September 2007)

FEBRUARY 2008 - Launch of Customer Codes of Practice

MARCH 2008 - School visit to Heritage Centre

Figure 1: Pictorial highlights for 2007/08.

Strategic overview

"NI Water's strategic objectives are focussed on its customers, environment, staff and stakeholders."

Strategic objectives

NI Water's strategic objectives are focussed on its customers, environment, staff and stakeholders:

- **Customers** - NI Water will become a customer-focussed business which cost effectively offers quality, responsive services and plays its part in improving the health and environment of the community;
- **Environment** - NI Water will deliver sustained, prioritised investment to the water and wastewater networks to improve environmental outcomes and deliver significantly improved wastewater compliance at works and water quality at the tap;
- **Staff** - NI Water will be an employer of choice, offering staff reward in line with performance, significant opportunities to develop skills and expertise and pride in delivering an improving quality service; and
- **Stakeholders** - NI Water will build strong, open and honest relationships with stakeholders including its Shareholder, NIAUR and CCNI in order to build trust and confidence in its ability to deliver on its other strategic objectives.

Measures of success

NI Water has developed a number of Key Performance Indicators ("KPIs") which will be used to assist in measuring the successful implementation of its strategic objectives. These performance indicators are grouped under four scorecard headings: Customers, Cash, People and Compliance.

There are 28 KPIs spread across the four scorecard headings, of which 12 are headline indicators and 16 are supporting indicators. The full listing of indicators is shown at ***Annex A***. An explanation of the KPIs is contained at ***Annex B***. The performance against our 12 headline KPIs is summarised overleaf. Target and actual performance is shown for NI Water Service in 2006/07 and NI Water for 2007/08 where targets were set for both years. The target performance for 2008/09 is based on our draft 2008/09 Operating Plan. The target performance for 2009/10 is based on year three of our Strategic Business Plan.

Owenkillen River, Newtownstewart

We have delivered against the majority of our commitments for 2007/08 as set out in our Strategic Business Plan (2007-10) and moved closer to our aim:

"NI Water will become a customer-focussed business which cost effectively offers quality, responsive services".

Success against our strategic objectives is measured using Key Performance Indicators ("KPIs"). Performance against our headline KPIs for 2007/08 and comparative figures for 2006/07 is shown right. Further information on KPIs is contained on pages 18 to 40. (see ***Annex A*** on page 116 for a full listing of our KPIs and ***Annex B*** on page 120 for an explanation of our KPIs):

KPI	Target 2007/08	Actual 2007/08	Target 2006/07	Actual 2006/07
CUSTOMERS			*Note 1*	*Note 1*
Supply interruptions (%)				
>6 hours	2.00	1.35	#	#
>12 hours	0.25	0.25	0.30	0.13
>24 hours	0.03	0.01	#	#
Response to written complaints (%)	96.0	90.61	90.0	91.4
Ease of telephone contact (%)	93.0	94.78	93.0	83.1
CASH				
Leakage - million litres per day	157.0	156.52*	169.0	168.06
Comparative operating cost efficiency (£m)	29.8	##	24.6	##
Comparative capital efficiency (%)	2.1	##	##	##
PEOPLE				
Health and safety (absence-related accidents)	18	16	19	19
Manpower numbers (number of posts)	1,881	1,726	1,911	1,744
Staff attendance (%)	95.7	95.0	95.42	94.2
	Target for Jan-Dec 2007	Actual for Jan-Dec 2007	Target for Jan-Dec 2006	Actual for Jan-Dec 2006
COMPLIANCE				
Drinking water quality - Mean zonal compliance (%)	99.44	99.30	99.33	99.33
Wastewater quality				
(a) percentage of works (%)	84.0	84.23**	84.0	84.0
(b) percentage of population equivalent (%)	82.5	84.38**	76.0	77.0
Pollution incidents (number)	46	60**	#	#

Figure 2: Headline KPIs for 2007/08 and 2006/07

Key to table: Achieved Not achieved

Note 1. 2006/07 data refers to the predecessor organisation, Northern Ireland Water Service.

 # Targets under construction.
The methodology for measurement of the operating cost efficiency and capital cost efficiency is being developed in conjunction with the Shareholder and Northern Ireland Authority for Utility Regulation ("NIAUR") - the "Utility Regulator". The targets have been recorded as 'achieved' on the basis that the efficiencies have been deducted from the 2007/08 budget.
**Subject to final validation by Reporter (a professional commentator and certifier) and agreement of NIAUR.*
***Subject to agreement with EHS.*

"NI Water made substantial progress in 2007/08 in developing frameworks for reporting low pressure, supply interruptions and internal sewer flooding."

New performance indicators

It is anticipated that the Utility Regulator will review NI Water's performance against the key performance indicators as part of the development of a Guaranteed Standards Scheme ("GSS") in 2008/09. The GSS will provide a list of indicators which must be achieved by NI Water. Failure to achieve the target level of performance will result in a compensatory payment to the customers affected. The GSS is likely to be introduced in April 2009 (2009/10). As part of this process, the Utility Regulator requires NI Water to amend existing performance indicators and develop a number of new performance indicators, including the following:

- making and keeping appointments;
- provision of adequate water pressure;
- interruptions to supply; and
- sewer flooding.

NI Water has made substantial progress in 2007/08 in developing frameworks for reporting DG2 (low pressure), DG3 (supply interruptions) and DG5 (internal sewer flooding).

The Utility Regulator is also keen to see an early introduction of indicators which will facilitate comparison with the Ofwat* performance measurement tools including Overall Performance Assessment ("OPA"), Levels of Service Annual Report, long-run serviceability trends and sustainability measures. These new performance indicators will look right across the business at mains bursts, adequacy of water resources and sewer collapses.

**Economic regulator for water and wastewater in England and Wales.*

Analysing the quality of Northern Ireland's drinking water in Altnagelvin

"Working with the Utility Regulator to deliver the regulatory review of prices in 2010."

Strategic challenges facing NI Water in 2008/09

The main strategic challenges facing NI Water in 2008/09 include the following:

Customers

- introduction of new non-domestic charges in 2008/09;
- preparing for the introduction of domestic charging in 2009/10; and
- introducing new Codes of Practice.

Cash

- working with the Utility Regulator to deliver the regulatory review of prices the 2010 Price Control ("PC10");
- delivering the operating and capital cost efficiencies;
- absorbing staff reduction costs brought forward from 2009/10 to accommodate earlier departure; and
- absorbing additional Business Improvement Programme costs resulting from deferment of funding for some areas of the programme in 2007/08.

People

- attracting and retaining high calibre staff; and
- managing the Staff Reduction Programme while maintaining service and quality standards.

Compliance

- delivering the £229m of capital works projects scheduled for delivery during 2008/09; and
- delivering the Northern Ireland Asset Management Plan to support delivery of PC10.

Stakeholders

NI Water also faces challenges in respect of building public trust with its stakeholders.

Children in boat race at Killyleagh, Strangford Lough

Business overview

"Investing at a rate of £1m per working day."

As the UK's newest water Company, NI Water is investing at a rate of £1 million per working day in upgrading Northern Ireland's antiquated water and sewerage infrastructure. After only 12 months in operation, the organisation is on track to deliver substantial improvements in service, environmental performance and financial efficiencies which will ensure the long term viability of the business.

Health & Safety at Work: Creating and maintaining safe working environments for all our people

The improvements within our external operating environment are summarised below under 'Economic performance'. The improvements within our internal operating environment are detailed in the 'Operational performance, management of resources and financial performance' section of the report.

Economic performance

The first part of this section provides a brief description of the main factors that could affect the economic performance of NI Water. In the second part, a summary of NI Water's latest economic results is provided, using a variety of metrics.

Factors affecting the economic performance

Economic factors

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

- overall performance of the Northern Ireland economy;
- change in demand due to changes in NI Water's customer base;
- the level of interest rates; and
- unexpected changes in input cost inflation.

A slow down in the NI economy could affect NI Water in two ways.

First, a worsening of the economic conditions of the customer base, with the associated reduction in incomes, may have negative implications for the level of bad debt faced by NI Water. Second, an economic slowdown may lead to a generalised reduction in overall demand for water and sewerage services throughout the region. However, this would appear to be a remote possibility given the limited scope for their substitutability. In addition, the population in Northern Ireland is projected to increase from 1,761,000 inhabitants in 2007 to 1,774,000 in 2008 (+0.74%), suggesting that overall demand is likely to remain solid.

Furthermore, the NI economy has been growing at a satisfactory rate in the past few years and the outlook remains positive.

At present, therefore, the biggest threat to the demand for water and sewerage services could be the relocation outside of NI of some large manufacturers.

"The biggest threat to demand... could be the relocation outside of NI of some large manufacturers."

Interest rates could also affect NI Water's performance. Changes in interest rates could expose NI Water to an increase in the cost of servicing the debt used to finance NI Water's activities. However, the interest rate on the loan notes used to finance the capital programme is fixed until 2010 after which it moves to a variable rate. This could potentially be an issue post 2010 if the base rate were to be increased significantly due to abrupt changes in the economic conditions. The UK interest rate, which averaged 5.57% in 2007/08 (shown in figure 3 below), is expected to remain flat during the rest of 2008 despite a potential slowdown of the UK economy.

Finally, unexpected changes in input prices may impact the short-term performance of the business. NI Water may bear higher input costs before being able to pass these costs increases through to its final customers.

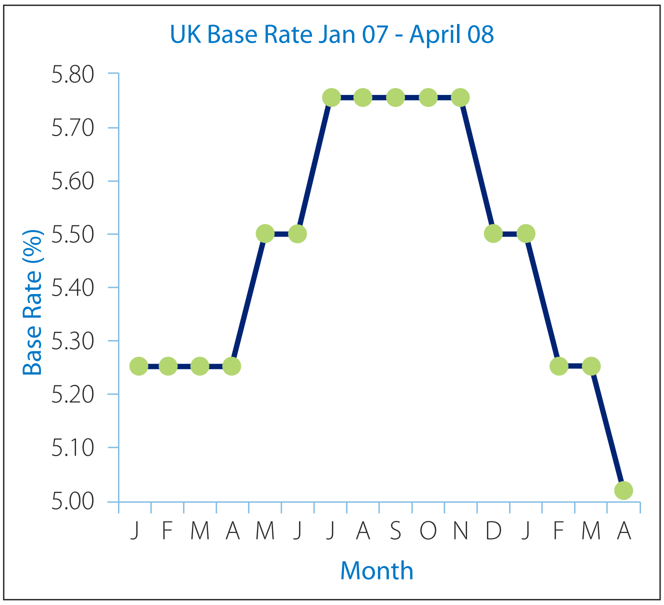


Figure 3: Changes in UK (base) interest rates (Source: Bank of England)

Regulatory factors

Since vesting, NI Water has been subjected to a limit in the level of revenues it can raise, either through direct charges from its customer base or from a government subsidy. Over the next two years, the subsidy will be phased out though some subsidy remains for low income households and NI Water will be expected to be entirely self-funded through revenues from water charges*.

During the current interim period (from 1 April 2007 to 31 March 2010), NI Water is able to adjust the revenue which it can raise from customers to meet any difference between estimated and actual costs arising from factors which include changes in customer numbers and levels of bad debt.

NIAUR is expected to use a RPI-X approach post 31 March 2010. It will set the allowable revenues recoverable from customers in each year of the Price Control period. These will be expected to grow according to the annual level of inflation, corrected by required annual improvements in the Company's efficiency.

The introduction of multi-year regulation will eventually provide NI Water with more certainty, especially within each price control period. However, it should be noted that the economic performance of NI Water will be affected by the forthcoming regulatory determinations, which are still being developed.

This raises a series of uncertainties as to factors that may impact NI Water's performance. First, the length of the regulatory period chosen by NIAUR will play an important role. In particular, there is already an indication that the first regulatory period will only be two years long. While this arrangement may provide more flexibility to adjust to a changing operating environment, it will contribute to increasing medium-term uncertainty for NI Water.

**Currently under review by the NI Executive.*

Investment in wastewater treatment and collection systems will continue to provide clean beaches and rivers for the future.

"The level of efficiency improvements will impact on the Company's performance."

Second, the actual regulatory determinations will have a clear impact on what NI Water will be able to achieve in the medium term. Specifically, the level of efficiency improvements that NIAUR will expect NI Water to achieve will have an impact on the Company's performance.

Finally, it should be noted that, should the underlying economic situation change significantly, NI Water could reduce its exposure by asking for an 'interim regulatory determination'. In practice, NIAUR could re-open the price control review process and issue a new set of regulatory determinations that are appropriate for the new economic situation. While this mechanism offers some protection to NI Water, the Company may still be required to absorb smaller short-term increases in costs.

Summary of NI Water's economic performance

NI Water's economic performance will also be affected by the performance of the Company in two key dimensions:

- Cost efficiency management of operating costs and efficient delivery of capital programmes in the most cost effective way; and
- Revenue and cashflow management efficient revenue collection and bad debt management.

Economic performance within NI Water has been assessed using the following financial and economic metrics. This provides information on how successful the Company has been in managing its operations.

Accounting metrics

The accounting return on capital invested in the business has been measured in two ways:

- return on average net operating assets - this is a pre-tax measure of the return on the book value of capital employed in the business; and
- return on average invested capital - this is an after-tax measure of the return on the invested capital employed in the business.

These are measures of the financial productivity of the assets of the business. Although it is not a perfect measure of performance, an accounting return on capital in excess of the cost of capital is consistent with efficient management of the assets. Both measures show a return which is in excess of the cost of capital for the business.

Weighted average cost of capital

The weighted average cost of capital ("WACC") is 5.44% for 2007/08.

Added value metric

Economic performance of the business is shown using added value and economic return. Added value is an absolute measure of value created based on Earnings Before Interest, Tax Depreciation and Amortisation ("EBITDA") less sustaining investment and a charge for cost of capital. The charge for cost of capital is based on the weighted average cost of capital applied to the average book value of investment. In 2007/08 the cash added value was £5.9m.

Economic return

The economic return is based on cash added value expressed as a percentage of the average book value of investment. The economic return in 2007/08 was 0.6% in excess of the cost of capital.

The positive results for economic return and cash added value are consistent with the efficient management of the business. The table overleaf (see figure 4) shows the basis of calculation of the above metrics:

Notes:

(1) Adjusted profit from operations represents operating profit prior to the deduction of Business Improvement and Voluntary Early Retirement scheme costs.

(2) Average net operating assets represents closing tangible fixed assets, net working capital and non tax provisions. Closing balances are used for 2007/08 as there are no comparatives.

(3) Average invested capital represents average net operating assets less average taxes. Closing balances are used for 2007/08 as there are no comparatives.

(4) Return on average net operating assets represents adjusted profit from operations divided by average net operating assets.

"The positive results for economic return are consistent with the efficient management of the business."

(5) Return on average invested capital represents adjusted profit from operations less a tax charge divided by average invested capital.

(6) Cash added value represents an internal measure of the post tax free cash flow (taking into account sustaining investment in the business) less a weighted average cost of capital charge applied to the average invested capital of the business.

(7) Economic return represents cash added value expressed as a percentage of the average invested capital.

	Note	**Historic cost financial statements 2007/08**
Adjusted profit from operations	*1*	**£76.6m**
Average net operating assets	*2*	**£1,025.2m**
Average invested capital	*3*	**£1,008.4m**
Return on average net operating assets	*4*	**7.5%**
Return on average invested capital	*5*	**6.0%**
Cash added value	*6*	**£5.9m**
Economic return	*7*	**0.6%**

Figure 4 - Basis of calculation of the measures of economic performance

Educating for the future at Silent Valley

Operational performance, management of resources and financial performance

This section details improvements within our internal operating environment. The improvements are grouped under the following areas:

- Customers;
- Cash;
- People;
- Compliance; and
- Business Improvement Programme.

Customers...

Providing Quality Service to Customers

Customer billing and contact

All customer contacts activity is managed through the NI Water Customer Relations Centre. There was the requirement to consolidate the new Company processes during the first full year of operation in 2007/08 which included the following:

- implementation of a Customer Service Improvement Programme to improve response to queries and resolving customer issues;
- utilising an independent market research company to continue to carry out regular surveys on call handling satisfaction;
- development of the methodology to measure performance at the customer interface in line with the requirements of NIAUR; and
- the publication of Codes of Practice in February 2008.

Performance against our KPI on the response to written complaints in 2007/08 is shown below in figure 5.

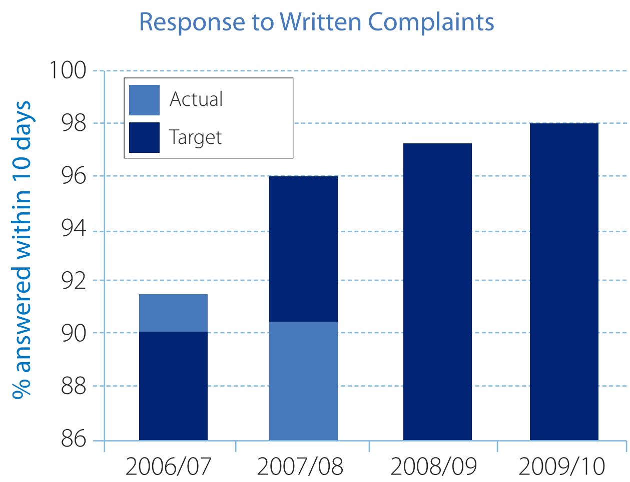


Figure 5 - Written Complaints

Comments on performance: The under performance in 2007/08 arose due to final business areas being brought on to the corporate customer contact system which is managed and reported through the Customer Relations Centre.

Measures to improve performance: The under performance highlighted some process and training issues, which have since been rectified. Reported performance towards the end of 2007/08 indicates recovery and performance improvement as the reviewed processes and systems bed in. Continuous monitoring through system generated management information reporting, will drive performance improvement in 2008/09.

"NI Water will implement a service quality strategy to improve the speed and quality of written and telephone responses to customers."

The Customer Service Development Programme for 2008/09 will comprise:

- development of customer service to meet or exceed regulatory standards and targets defined in the new customer Codes of Practice;
- implementation of a service quality strategy to improve the speed and quality of written and telephone responses to customers;
- close working between all areas of business in NI Water to maximise the benefit to customers from planned developments in infrastructure, technology and the phased introduction of the Mobile Work Management system;
- continuous liaison with NIAUR and CCNI in the development of a GSS by April 2009;
- extension of non-domestic charging from April 2008; and
- ongoing review of revenue assurance procedures to ensure optimum generation of income, recovery of charges and data integrity.

New non-domestic charges

From April 2008, sewerage charges will have been introduced for all non-domestic customers in Northern Ireland who are connected to the public sewers. At the same time there will have been changes to the charging scheme for non-domestic water customers. The charges will be phased in for the first year at 50% of the full charge. The charges are published in the Company's Scheme of Charges available on www.niwater.com/watercharges08 or by writing to NI Water, PO Box 2021, Belfast, BT1 9DF.

Metering programme

NI Water has been progressing installation of meters on new properties and first time connections to the water supply system. This has been introduced alongside a rolling programme of survey and installation of meters on non-domestic premises.

NI Water undertook the following activities to develop its metering strategy during 2007/08:

- a review of meter reading activity;
- optimisation of meter reading schedules; and
- first stage appraisal of options for the application of new technology.

In 2008/09, pending the outcome of the consultation on the Independent Water Review Panel Reports, NI Water will continue the metering of new build properties and first time connections, in accordance with existing legislation, even though meters installed on domestic premises will not generate a charge or bills. The metering of non-domestic premises will continue towards the objective of universal metering in this sector, alongside a review of the approach to be adopted on premises which share a common supply pipe.

Initial contact from customer

Call logged in Customer Relations Centre

Call actioned by engineer using Mobile Work Management technology

"6 Codes of Practice were issued in 2007/08."

The development of NI Water's metering strategy will continue, in support of revenue assurance, through:

- the implementation of efficiencies in meter reading;
- the targeted introduction of new 'smart reading' technology on a cost benefit basis; and
- the rationalisation of the meters in the customer database that are not currently billed for regulatory reporting purposes as well as maximisation of revenue bearing meters.

Codes of Practice

The 6 Codes of Practice issued in 2007/08 were:

- Our Customer Charter;
- What to do if you have a complaint;
- Priority Services for Domestic Customers;
- Sewerage Services for Domestic Customers;
- Guidance on dealing with leaks; and
- Water Supply Services for Domestic Customers.

NI Water will produce additional Codes of Practice in 2008/09. The codes will cover the following areas and may also be accompanied by guaranteed standards:

- water meters;
- domestic debt management; and
- domestic water and sewage bills explained.

Meter reading enables accurate billing which promotes water efficiency and good customer relations

"NI Water will produce additional Codes of Practice in 2008/09."

NI Water Codes of Practice

Consumer Council's Awards Presentation for "Ways to use Water Wisely"

"Water supply and sewer flooding are key areas of focus."

Customer water supply issues and sewer flooding

Water supply and sewer flooding are key areas of focus. NI Water played a major role in responding to severe flooding which affected Belfast and other parts of Northern Ireland in June 2007. In line with its Major Incident Plan Procedures, NI Water initiated a major response to minimise supply interruptions in Omagh in January 2008 resulting from a burst on the outlet watermain from Killyclougher Service Reservoir.

NI Water has been developing three systems during 2007/08 to collect reliable data on inadequate water pressure, interruptions to water supply and sewer flooding:

DG2 Register of Properties Receiving Pressure/Flow below Reference Level

The Company has substantially developed a DG2 Register using information from zonal studies and field studies. Further work will be carried out in 2008/09 in refining this process and identifying those areas where capital investment has already been carried out.

DG3 Register of Properties Affected by Supply Interruptions

A DG3 Register has been in operation since April 2007. The performance against our 2007/08 KPI on the percentage of the population experiencing interruptions in excess of 6hrs is shown in figure 6.


Educating the community at a "Save Water" event

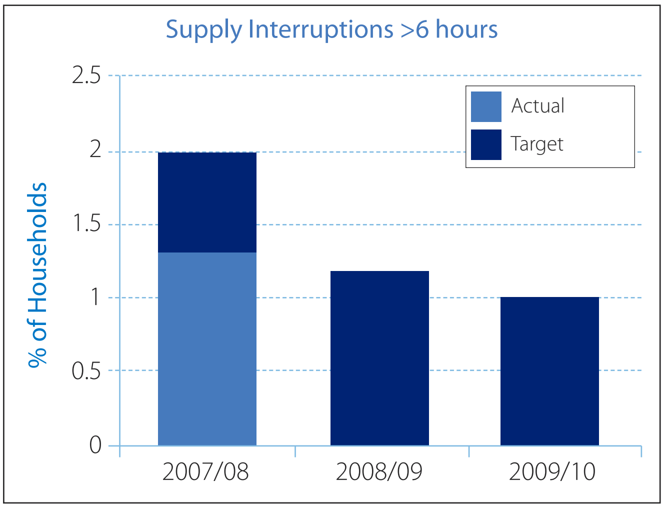


Figure 6 - Supply Interruptions >6 hours

Development of the DG3 process will continue during 2008/09 with performance improvements in the areas of data collection, operating procedures and management control.

DG5 Annual Flooding Summary and Register of Properties at Risk of Sewer Flooding

The Company is continuing to develop its DG5 Register using historical flooding information. The register is becoming embedded in the business and will be a key determinant for the focus of future capital expenditure. KPI targets for sewer

Launch of NI Water's Schools Competition

flooding have not yet been set or measured as flooding records are currently being compiled.

Customer contact

NI Water dealt with an unprecedented number of customer calls in 2007/08 arising from a number of factors which included septic tank emptying requests and the severe flooding in June 2007.

The performance against our 2007/08 KPI on telephone contact is shown in figure 7.

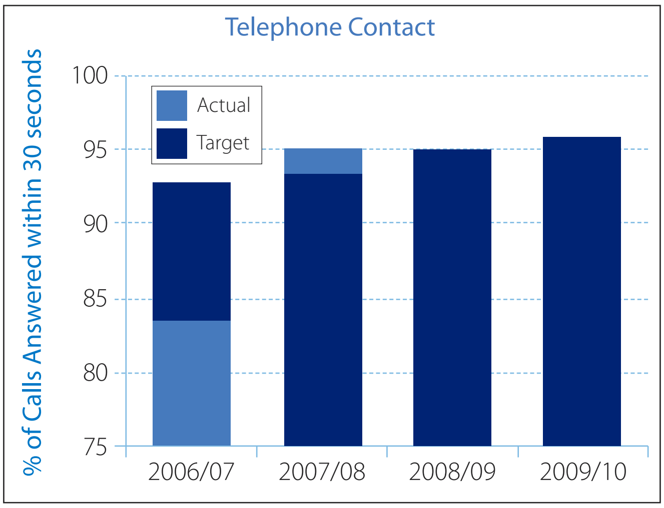


Figure 7 - Telephone contact

"NI Water delivered £29.8m* of operating cost efficiencies from a 2003/04 base."

Cash...

Delivering value for money

Efficiencies

NI Water delivered £29.8m* of operating cost efficiencies from a 2003/04 base and capital cost efficiencies representing 2.1%* of the capital programme. The operating cost efficiencies are generated by factors which include the following:

- manpower reductions resulting from the introduction of improved ways of working such as Mobile Work Management ("MWM"). MWM uses industry standard technology to intergrate customer contact and operational systems; and
- improved procurement of goods and services.

The capital cost efficiencies are generated by factors which include the following:

- improved procurement of capital projects;
- standardisation of components used for capital projects; and
- development of unit costs to benchmark the costs of capital components.

Accounting Policies

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP").

In the process of applying the Company's accounting policies, the Company is required to make certain judgments, estimates and assumptions that it believes are reasonable based on the information available. The more significant judgments and key assumptions and sources of information are provided below:

Retirement benefit obligations

Determining the amount of the Company's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Company makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made are set out in notes 1 and 26 to the financial statements.

Tax provisions

Assessing the Company's new tax position requires judgements to be made regarding the result of negotiations with, and inquiries from, tax authorities. The assessments made are based on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities.

Environmental provisions

Details of environmental provisions can be found on notes 1 and 20 to the financial statements.

Financial results

The Company's profit and loss account as presented on page 66 is summarised in figure 8 below:

	2007/08 £m
Turnover	297.7
Operating profit	63.9
Net interest payable and other finance charges	(7.1)
Profit before tax	56.8
Taxation	(15.8)
Profit after tax	41.0
Dividend	(34.0)
Retained profit	7.0

Figure 8 - Summary profit and loss account

Turnover was £297.7m for the year to 31 March 2008. Included in turnover was £253.8m in subsidies from the Department for Regional Development ("DRD") - the remainder being metered charges and miscellaneous income. The subsidy covered the full domestic charge and the Northern Ireland Executive has decided that this arrangement will also remain in place during 2008/09. The final decision on domestic charging for 2009/10 and beyond has not yet been taken by the Northern Ireland Executive.

*Refer to Annex A on page 116.

"Gross capital expenditure for the year was £256.4m."[2]

Profit on ordinary activities before interest for the year was £63.9m. Operating costs in 2007/08 of £233.8m were impacted by a number of factors including the formation of NI Water and the extensive Business Improvement Programme. There were a number of costs outside the initial funding envelope which the Company had to absorb such as increased environmental provisions.

The net interest charge was £7.1m after netting off interest received during the year of £2.6m. Profit on ordinary activities before tax for the year was £56.8m. The tax charge for the year was £15.8m. The effective tax rate for the year to 31 March 2008 was 27.7%. A dividend of £34m was declared and approved during the year.

Gross capital expenditure for the year was £256.4m compared to the Strategic Business Plan ("SBP") target of £273.0m (a decrease of £16.6m (6.5%))[2]. The shortfall is mainly attributable to the reprofiling of the Capital Works Programme to generate capital cost efficiencies.

The focus at NI Water is meeting compliance targets, the improvement of efficiency levels and driving down operating costs. Continuous improvement will be necessary to ensure the Company is successful in meeting the targets set by DRD in the Strategic Business Plan period.

Capital Structure

The balance sheet at 31 March 2008 as presented on page 67 is summarised in figure 9.

Net assets increased by 3.3% to £693.7m. The main movements in the balance sheet items were increases in fixed assets of £204.3m relating to our commitment to investment in the Capital Works Programme offset by increases in net debt.

The Company commenced with borrowings of £150 million under the Unsecured Loan notes 2027 Instrument as at 1 April 2007. This increased to £307.6m by year end to assist in the funding of the capital programme. In addition there was £58m in cash and deposits giving rise to a net debt figure of £249.6m at 31 March 2008.

Gearing increased from 18.3% to 30.7% reflecting the draw down of loans under the Unsecured Loan notes 2027 Instrument.

Cash flows and debt

Operating activities generated a net cash inflow of £143.4m. An outflow of £7.4m was utilised in the servicing of financing arrangements. Net investing activities used £234.8m which mainly included the continuing capital expenditure to meet our obligations

	Assets £m	Liabilities £m	Net Assets £m
Fixed assets	1,094.2	-	1,094.2
Other current assets and liabilities	33.1	(144.9)	(111.8)
Other non current assets and liabilities	-	(27.9)	(27.9)
Deferred tax	-	(16.8)	(16.8)
Pension asset	5.6	-	5.6
Total before net debt	1,132.9	(189.6)	943.3
Net debt	58.0	(307.6)	(249.6)
Total as at 31 March 2008	1,190.9	(497.2)	693.7
Total as at 1 April 2007[1]	929.0	(257.3)	671.7

Figure 9 - Summary Balance Sheet

1 As per note 2 to the financial statements adjusted by the loan note issue of £150m

2 Gross capital expenditure is before deduction of capital contributions of £4.17m and add back £0.52m of PPP residual interest per note 13 to the financial statements

Official opening of Clady Wastewater Treatment Works after £2.4 million investment

"A central Treasury function was established in 2007/08."

under the capital programme. There were no dividends paid in the year. In order to meet the requirements of the above net outflow there was an increase in the financing requirement over the year.

Net debt at 31 March 2008 was £249.6m (an increase of £98.8m from 1 April 2007). The increase in net debt was sourced through an increase in net financial liabilities due after one year to £307.6m (1 April 2007: £150.0m). This relates wholly to borrowings on the Fixed Coupon Unsecured Loan notes 2027 Instrument. This instrument contains financial covenants, breach of which can trigger early payment.

The Company's 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 Interbank Offered Rates ("LIBOR").

Treasury policies and objectives

Funding and treasury risk management functions are managed within the Finance and Regulation Directorate of NI Water. A central Treasury Function was established during 2007/08.

The main purpose of the Treasury Function is to manage cash, funding and liquidity, interest rate, foreign exchange, financial counterparty and operational risks associated with running a treasury function. These risks are managed in accordance with the terms of the Shareholder Governance Letter and current financing agreements.

During 2007/08 the Treasury Function has established standard procedures for the management of treasury transactions and account balances. Under the terms of the current Governance arrangements, NI Water is only able to place funds available for investment in interest bearing accounts available from Northern Bank. NI Water is not permitted to use banking or other similar financial services provided by any third party without the Department's prior written approval.

A new policy document for investment of cash balances has been developed for consideration by the Board during 2008/09. This new policy document seeks flexibility from the Board to enable the Treasury Function to place short-term cash investments with other financial institutions in order to maximise the returns on cash balances held by NI Water as well as spreading the risk of holding all cash balances with only one financial institution.

The Treasury Function is not operated as a profit centre and debt and treasury positions are managed in a non-speculative manner. The Company's Governance Letter and its procedures prohibit the use of derivatives for speculation. The Company did not enter into financial derivative instruments for hedging purposes during 2007/08. There are no immediate plans to utilise financial derivatives to hedge financial risks.

Cash Management, Funding and Liquidity Risk

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.

Interest Rate Risk

Interest rates on 100% of borrowings at 31 March 2008 were at fixed rates. NI Water has committed borrowing facilities available but unused at the year end on which interest is charged at floating rates based on LIBOR. Interest rates on deposits are fixed for the period of investment. NI Water also maintains an instant access investment account on which interest is earned at rates based on LIBOR.

Foreign Exchange Risk

The Company is not exposed to significant foreign exchange transactions.

Financial Counterparty Risk

During 2007/08 the Company was not exposed to significant counterparty risk. In accordance with the Shareholder Governance Arrangements banking services were transacted through the Northern Ireland Civil Service contract.

"Leakage reduced for the sixth consecutive year."

Following the deferment of domestic charging it was agreed that a credit rating would not be carried out in 2007/08. NI Water is in discussions with NIAUR in relation to undertaking a credit rating exercise during 2008/09.

Pensions

The Company set up a defined benefit pension scheme on 1 April 2007 providing benefits based on pensionable remuneration. Employees who transferred from the Northern Ireland Water Service at 1 April 2007 have the option to transfer their existing pension rights under the Principal Civil Service Pension Scheme Northern Ireland ("PCSPS (NI)") to the NI Water Pension Scheme. In the absence of information on how many employees wish to exercise this option an actuary has provided an estimate at year end of the likely impact of this transfer. Further details of the scheme are disclosed in note 26 to the financial statements.

Capital Investment

The capital investment for 2007/08 is shown on figure 20 (page 37). The majority of the capital investment relates to the Capital Works Programme. The Company has invested approximately £58m on water production and distribution with focus on improving levels of service to customers and upgrading our treatment works and distribution network. The Company has also invested approximately £156m on sewerage services with a focus on repairing our ageing sewers and maintaining and upgrading our sewerage treatment works to meet higher compliance standards.

Atypical operating expenditure items

NI Water considers the following items to represent atypical operating expenditure in accordance with Regulatory Accounting Guideline 3.06 ("RAG 3"). Atypical items are deemed to be 'one off' in nature.

Expenditure item	2007/08 £'000
Business Improvement Programme	8,115
Voluntary Early Retirement scheme	4,564
Increase in environmental provisions	3,520
Total	**16,199**

Figure 10 - Atypical operating expenditure items

Leakage

NI Water is committed to water efficiency and has continued to reduce leakage for the sixth consecutive year from a peak of 291million litres per day (Ml/d) in March 2002. The level of leakage in March 2008 was 156.52Ml/d[1] (figure 11) against a target of 157Ml/d.

NI Water accepts that there is uncertainty in respect of some components of the industry standard water balance methodology used to calculate leakage. The 'bottom up' and 'top down' leakage assessments within the water balance methodology reconcile to just over the 5% required tolerance. In some cases the uncertainty surrounding the components improves the reconciliation while in other cases the uncertainty worsens the reconciliation. NI Water recognises that there is significant work to be carried out in particular in relation to the 'top down' assessment. This work will be carried out in conjunction with the Reporter and NIAUR. However, as NI Water enjoys district metering area coverage comparable to the best in the UK, NI water has elected to report a 'bottom up' leakage figure with a 'most likely estimate' ("MLE") adjustment for 2007/08. This is consistent with previous years' reporting.

The chart below shows the KPI for Leakage.

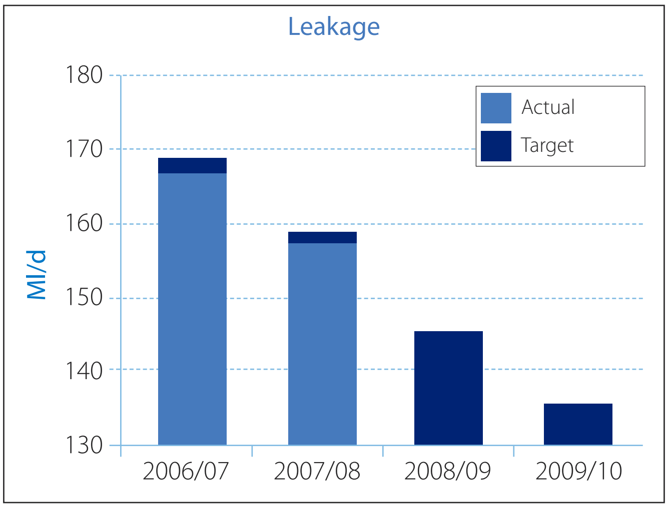


Figure 11 - Leakage

The reduction in leakage has been achieved with the dedication of our staff and by adopting best practice approach to leakage detection, repairs and network management. NI Water has benefited from the support of customers through the reporting of leaks using the freephone leakline number on 08000 282 011.

NI Water will continue to work towards the achievement of the Economic Level of Leakage of 135Ml/d by 31 March 2010. The target for 2008/09 will be to reduce leakage to 146Ml/d by 31 March 2009. The 'Economic Level of Leakage' represents a level of leakage at which the costs of reducing leakage would be greater than any resultant cost efficiencies.

1 Subject to final validation by the Reporter and agreement of NIAUR.

Report leaks on roads and footpaths to LEAKLINE (Freephone) 08000 282 011

"In 2007/08 HR concluded the development of a new Human Resources system."

People...
Building the capacity to deliver

NI Water recognises the importance of its staff in delivering its strategic objectives. This is evidenced throughout this section in initiatives which include the staff surveys, an 'Employee/Employer promise' and a pay and grading review.

"Water for life" event at Silent Valley

Human Resources Reform

NI Water continues to build upon the HR business partner model and has appointed HR Business Partners to support other Directorates in the achievement of their objectives. The HR Business Partners have been supporting the business in the major staff redeployment exercise resulting from the implementation of Mobile Work Management.

The following activities were undertaken in 2007/08:

- development and implementation of an integrated HR IT and Payroll system;
- definition of the new organisational pay and grading structure with an incentive plan designed to deliver high performance;
- carrying out a staff survey to monitor progress on employee satisfaction levels;
- implementing a new integrated suite of HR policies;
- introducing a staff reduction programme; and
- introducing an Employee/Employer promise.

"Implementing a new integrated suite of HR policies."

Performance against our staff attendance KPI target has been impacted by the HR reform process as shown in figure 12.

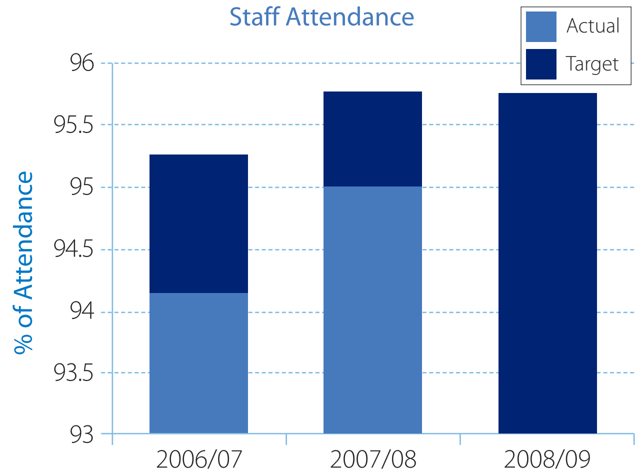


Figure 12 - Staff attendance

Comments on performance: There were a substantial number of ill-health retirements in 2007/08 and complex pension constraints outside of NI Water's control delayed the release of ill health retirees from the business. NI Water went through a substantial people efficiency programme resulting in excess of 100 plus staff reductions. While a substantial amount of these were facilitated by internal re-deployment, the remaining reductions were facilitated via a Voluntary Early Retirement Scheme. The consequence of this exercise was a number of staff taking leave of absence citing stress as a result of this change initiative.

Measures to improve performance: In 2008/09 the pensions constraints should be removed or substantially reduced enabling staff who are ill health retired to be released at the appropriate time. In 2008/09 NI Water will need to release 300 plus staff to meet efficiencies. Improved communications between line managers and staff regarding schemes to facilitate these reductions should reduce the impact of this change initiative in 2008/09. Human Resources will continue to support staff going through this change process with our portfolio of Employee Assistance Programmes.

The following key activities will be undertaken in 2008/09:

- further development of the HR IT and Payroll system;
- introduction of the new NI Water Performance Management System;
- implementation, following trade union consultation, of the new Company pay and grading structure;
- carry out a second staff survey; and
- deliver upon all of the actions listed in the Employee/Employer Promise.

Pensions

From April 2007 all employees of NI Water have been automatically entered into the new NI Water Pension Scheme. The new NI Water Scheme has a benefits structure which is a 'mirror image' of the Civil Service Scheme. It is a funded defined benefit scheme managed by a Board of Trustees made up equally of Company and Member nominated trustees who will be legally responsible for managing the scheme.

During 2008/09, NI Water will:

- seek to conclude the Bulk Transfer of monies from the Civil Service Scheme to the NI Water Pension Scheme; and
- work closely with the Scheme's Trustees and advisers to ensure the effective running of the scheme to the advantage of all members.

Creating and maintaining safe working environments for all our people is essential throughout our business

Staff Reduction Programme

The SBP sets out a staff complement of 1,412 for 2009/10 (figure 13) representing a staff reduction throughout the 2008/09 year of 304 full time equivalents. Staff in the affected grades and areas were offered redeployment opportunities across NI Water. In addition, a Voluntary Early Retirement ("VER") scheme was initiated in 2007/08. All applications for redeployment have been progressed and concluded. A further staff reduction scheme for 2008/09 will be developed based on business needs as each Directorate embeds new operating models and structures.

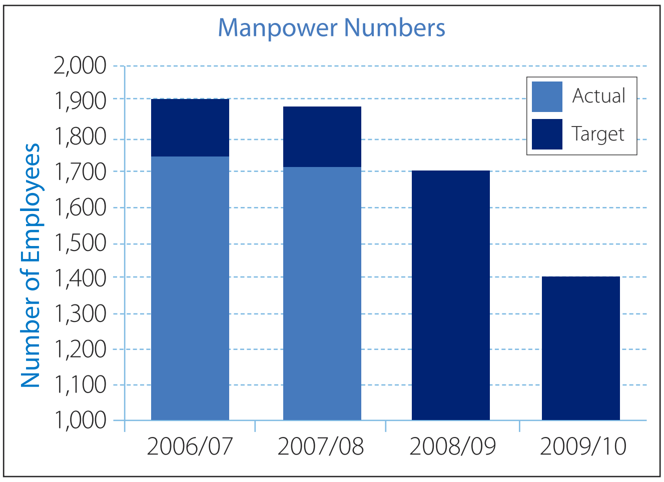


Figure 13 - Manpower numbers

Employee/Employer promise

The Employee/Employer Promise was launched in 2007/08 and describes NI Water's commitment to employees, the principles which the organisation will abide by and what it expects in return from employees. These commitments include payment of Corporate Bonuses of up to £400 to those staff not on personal bonus arrangements, subject to the achievement of corporate key performance indicators. Delivering upon other employee promise commitments will be the new performance management system, a focus on celebrating success, developing a NI Water modern apprenticeship scheme and consideration of a job shadowing and rotation scheme.

Communications

The Communications Unit is committed to keeping our employees informed about NI Water's activities, the issues impacting on them and the changes happening within the organisation.

Staff prepare to refill another service reservoir during a bulk tankering operation

"NI Water has a zero 'lost days accident' ambition by 2014."

Health and Safety

A Royal Society for the Prevention of Accidents ("ROSPA") Health and Safety Capability Audit was completed in 2007/08 and the recommendations stemming from the report will be fully implemented by March 2009. The Health and Safety Manual has been revised as a top level policy manual with links to more comprehensive procedures and associated documents. The recommended Health and Safety training will then follow for all staff, throughout 2008/09. The new Health and Safety policies and procedures will assist in reducing accident frequency within the Company.

The chart below shows the KPI performance for Health and Safety.

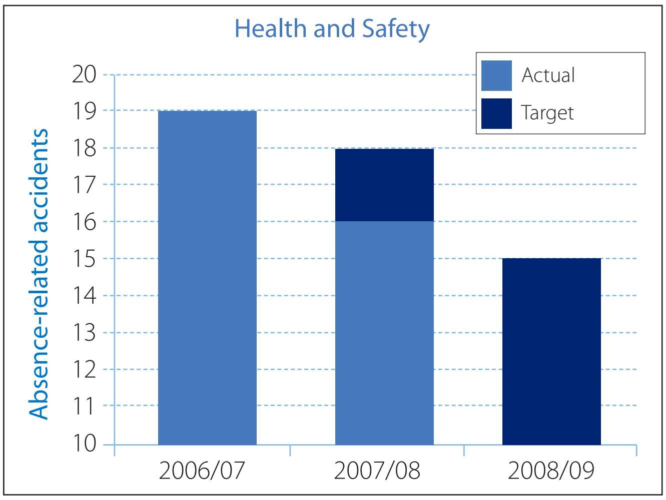


Figure 14 - Health and safety

A "3-year average" rate of accident reduction has been set, for 2008/09, at 5% for the absence-related accidents key performance indicator, equating to 15 absence-related accidents. This target supports the NI Water "zero lost days accident" ambition by 2014.

A near-miss reporting target has been agreed for NI Water for 2008/09. Lessons learned from near misses will also assist in reducing accidents within NI Water.

Engineer at Loughmacrory Water Treatment Works

"Each day we supplied some 614 million litres of high quality drinking water to customers."

Compliance...

Investing for the future

Northern Ireland has inherited a legacy of acute underinvestment in water and wastewater. As a consequence, there is a considerable gap between our performance and that of the rest of the Water Industry in the UK. However, the team of talented and motivated people that makes up NI Water is determined to close that gap over coming years.

Water

Water Resources

Approximately 795,000 domestic, agricultural, commercial and business properties in Northern Ireland are connected to the public water supply and each day we supplied some 614 million litres of high quality drinking water to customers. NI Water operated approximately 50 sources which comprised upland impounding reservoirs, boreholes, rivers and loughs. NI Water, through its Water Resource Strategy, has planned to ensure that demand for drinking water is met for the period up to 2030. The strategy emphasises the need to rationalise existing uneconomic water sources and concentrate on the sources that can meet our needs cost effectively and reliably.

For all emergencies, services and general enquiries telephone the WATERLINE 08457 440088. Typetalk for people with hearing difficulties 0800 515 446*

**All calls charged at local rate or email your query to waterline@niwater.com*

Water Quality

The chart below shows the KPI for Water Quality.

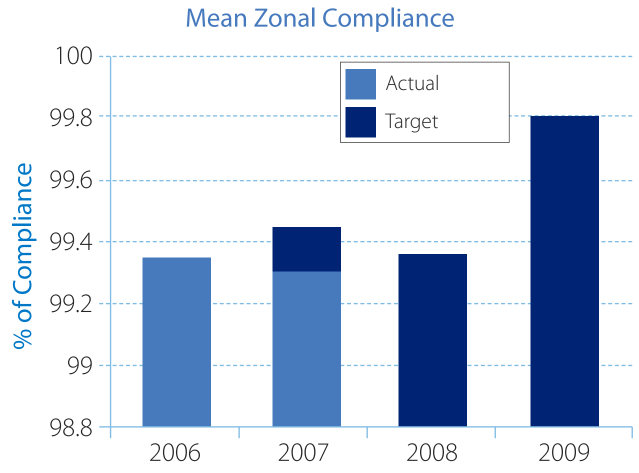


Figure 15 - Drinking water quality

Comments on performance: Underperformance in 2007 was primarily due to poorer than expected raw water quality causing increased Trihalomethane exceedences. There were no adverse implications for public health.

Measures to improve performance: The mean zonal compliance target for 2008 is lower than 2007 due to the potential continued deterioration in raw water quality. This deterioration is driven by a number of factors which include adverse weather patterns. Work is continuing into 2008 to minimise chlorine levels and residence times in distribution in readiness for the commissioning of the Alpha PPP works later in in 2008/09.

In 2004 the Water Supply (Water Quality) Regulations (NI) 2002 came into force. These regulations implement the EC Drinking Water Directive (Council Directive 98/83/EC on the quality of water intended for human consumption). They fully incorporate, and go beyond, the requirement of the Directive and introduce tighter quality standards, particularly for lead and other health related parameters. They allow a time-limited, authorised departure from the regulatory limit

"We exceeded our wastewater compliance target with over 84% of customers served by compliant works."

or certain parameters, provided that there is a planned programme of work at the Water Treatment Works to improve the water quality, and provided that there are no adverse health implications arising from the departure. Compliance against these standards is monitored during the year through an extensive water sampling and testing programme.

During 2007 this involved approximately 112,000 tests. Levels of compliance are shown in figure 15.

NI Water continued to meet the obligations placed upon it to comply with regulatory standards and heightened demands due to increased customer expectation. Investing in the extension and upgrading of water treatment works remains a top priority. Further details about the quality of drinking water are available in our Drinking Water Quality Report, which is published annually. This can be viewed or obtained on our website at www.niwater.com or by calling the **WATERLINE 08457 440088.**

District Councils are also provided with details of the quality of drinking water supplied in their local areas. A drinking Water Quality Register, which provides results for each water supply zone, is available for inspection at any one of our four main offices at Belfast, Ballymena, Craigavon and Londonderry, during normal office hours.

The completion of the Public Private Partnership ("PPP") works in 2008 will improve our drinking water quality. NI Water also has planned work to upgrade treatment at Seagahan water treatment works.

Wastewater

Wastewater treatment and collection

Investment levels in wastewater treatment in Northern Ireland have lagged far behind those in the rest of the United Kingdom for many years and this has resulted in compliance with European Union Directives also being significantly lower. We have recently embarked on a major capital investment programme to improve wastewater treatment facilities and increase levels of compliance. Although this will take a number of years to implement, we are already seeing improvement in compliance with the Wastewater Treatment Works Water Order Consents as set by the EHS. The chart below illustrates the improvement in compliance levels in 2007.

The ongoing improvement in compliance levels in 2007 is due not only to the commissioning of new and upgraded treatment facilities at sites such as Larne, Tandragee, Londonderry and Carrickfergus but also to the implementation of interim solutions at a number of other Wastewater Treatment Works.

Completion of further new Wastewater Treatment Works in the ongoing capital investment programme will lead to increased compliance with Water Order Consents. In addition to investing in major Wastewater Treatment Works, NI Water will commence a programme to address the underinvestment in small rural Wastewater Treatment Works.

Collection of sample for testing water quality compliance

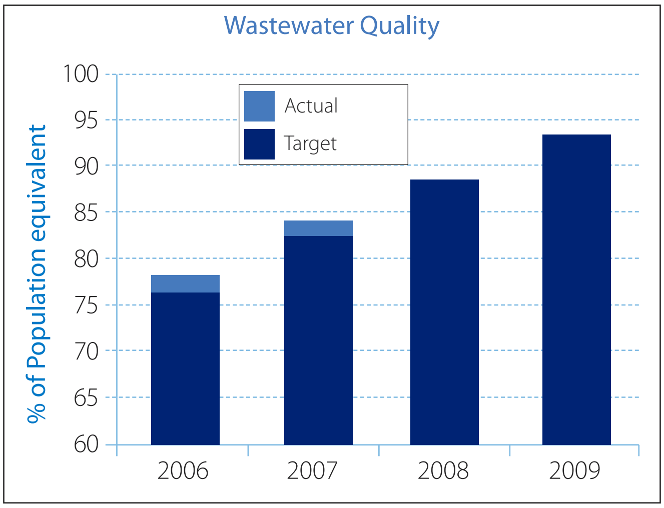


Figure 16 - Wastewater quality (% of population equivalent) served by compliant Wastewater Treatment Works

"11 bathing waters met the higher guideline standards."

EC Bathing Waters

During 2007 the EHS monitored 23 identified bathing waters (under the European Bathing Water Directive) throughout the bathing season. The sites were those at which bathing is traditionally practised by large numbers of bathers and each site was sampled on 20 occasions during the season, which runs from June to early September. The Directive contains two standards on the quality of bathing water: a mandatory standard; and a more stringent guideline standard. In 2007, 21 of the identified bathing waters in Northern Ireland met the mandatory standard, and 11 met the higher guideline standards. Two bathing water areas (Newcastle and Ballyholme) failed the Bathing Water Directive standard. Compliance with Directive standards in 2007 was impacted by periods of heavy rainfall which results in intermittent discharges from the sewerage system.

A £47.5m Wastewater Treatment Works on the North Coast to treat the wastewater from Coleraine, Portrush, Castlerock and Portstewart was completed in June 2007 and should lead to further improvements in bathing water quality.

Blue Flag beach at White Rocks, Portrush

Pollution Incidents

NI Water lost Crown Immunity on 1 April 2007 and is subject to the full EHS regulatory regime which includes monitoring of pollution incidents. Performance against the pollution incidents KPI is shown in figure 17.

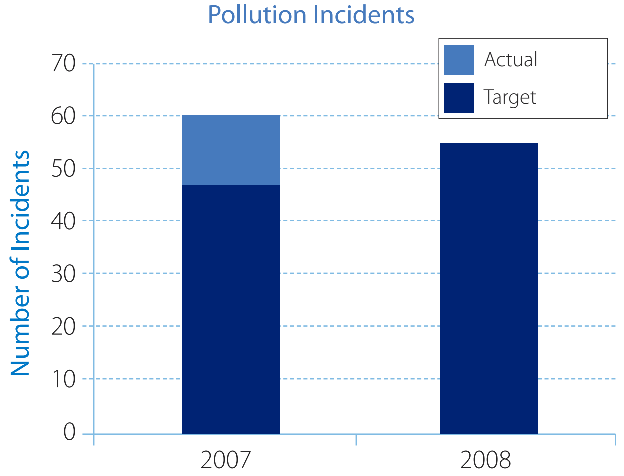


Figure 17 - Pollution incidents

Comments on performance: The legacy of underinvestment in Waste Water installations and infrastructure has been a key factor in the underperformance in achieving the Pollution Incidents KPI. The provisional outturn for 2007, based on EHS monthly audits, is 60 high and medium severity pollution incidents attributed to NI Water against a target of 46. The KPI relating to pollution incidents is captured on a calendar year basis and the 2007 target was originally set as 8% less than the 2004/06 average. Given that NI Water lost crown immunity on 1 April 2007 and was subject to the full EHS regulatory regime, the experience of the approach adopted in 2007 has shown that this methodology was not appropriate and the target for 2008 was not realistic.

Measures to improve performance: The target for 2008 has been reviewed to reflect the full EHS regulatory regime and the heightened customer awareness of pollution incidents. Training Awareness sessions carried out in April 2008 on Pollution Response Procedures reminded staff of NI Water's pollution response procedures, provided guidance on powers of entry, statements under caution and receiving of Statutory samples.

"Some £214m of capital infrastructure projects were delivered in 2007/08."

Capital Works Programme

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.

Some £214m of capital infrastructure projects were delivered during 2007/08. This included the continuation of projects previously started along with the commencement of new projects. 27% of this capital programme was targeted at water projects while 73% was targeted at sewerage projects. This split is presented in figure 18.

Some major projects which were completed during 2007/08 include:

- the North Coast Wastewater Treatment Works;
- Ballybrakes / Glenstall (Ballymoney) Wastewater Treatment Works;
- Irvinestown Wastewater Treatment Works;
- North Down Strategic Trunk Main; and
- Clay Lake Zonal Watermain Improvements.

25 projects were commenced at high priority Wastewater Treatment Works. This will continue the on-going work to ensure compliance with the appropriate European Directives and meet the regulatory discharge consent standards.

Significant projects within this programme of work included the following Wastewater Treatment Works:

- Derrylin ;
- Enniskillen ;
- Portaferry;
- Limavady; and
- Annahilt.

Work also started on improving the wastewater treatment facilities at a number of locations on the Ards Peninsula, including Ballywalter, Cloghy and Carrowdore. Improvements to the water treatment works at Seagahan (Armagh area) also commenced in 2007/08.

Improvements were made to the watermain infrastructure in a number of areas throughout Northern Ireland, including Lough Fea (Cookstown / Draperstown), Armagh City, Cargan (Ballymena), and Altnahinch (Ballymoney). This is part of a three year programme of work to reline or replace some 910km of watermains.

Work continued on the improving the sewer network in Londonderry City as well as the Belfast Sewers Project.

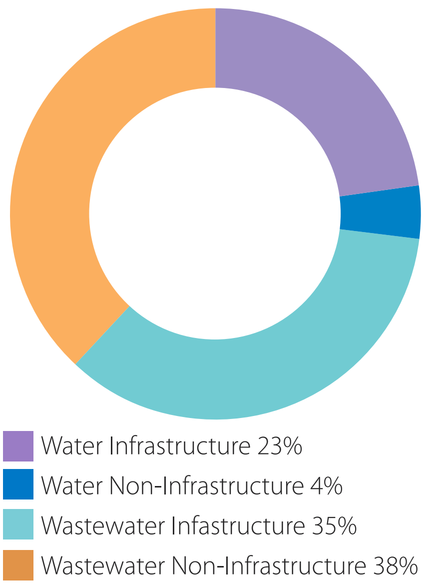


Figure 18 - Analysis of the 2007/08 Capital Works Programme

Children enjoying Ballyhornan beach, Co. Down

"£229m of capital projects are scheduled for delivery in 2008/09."

£229m of capital projects are scheduled for delivery during 2008/09. This includes the continuation of projects previously started along with the commencement of new projects. In total 24% of the capital programme is targeted at water projects while 76% is targeted at sewerage projects. This split is presented in figure 19.

Major projects which are scheduled for completion during 2008/09 include:

- Major improvements to the wastewater treatment facilities at locations such as Warrenpoint, Hilltown, Killen, Belleek and Derrylin;
- Portballintrae Zonal Watermain Improvements;
- Castor Bay/Moira Zonal Watermain Improvements;
- Sewer network improvements at Newry and Rostrevor; and
- Victoria Market and Gransha Pumping Stations as part of the on-going improvements to the Londonderry sewer network system.

Work will continue to ensure compliance with the appropriate European Community Directives and meet the regulatory discharge consent standards.

Major projects which commenced in 2007/08 will continue throughout 2008/09. These include Antrim Wastewater Treatment Works, Portaferry, Limavady and Enniskillen Wastewater Treatment Works. Also continuing throughout the year is the work to improve the wastewater treatment facilities at a number of locations on the Ards Peninsula. Significant projects scheduled to commence in 2008/09 include:

- Moygashel;
- Ballyhalbert;
- Clough; and
- Castlecaufield.

The Minister and Chris Mellor take a tour of Culmore Wastewater Treatment Works

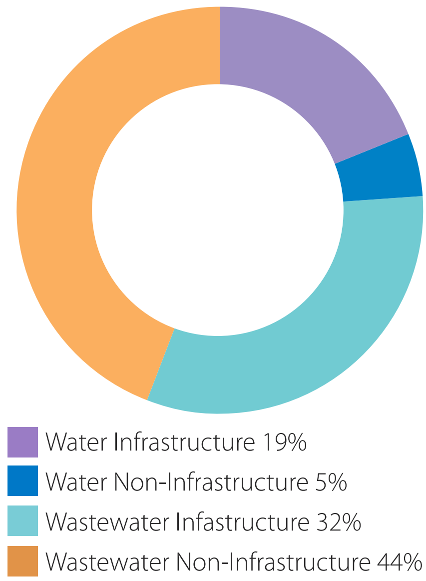


Figure 19 - Analysis of the 2008/09 Capital Works Programme

"NI Water has commenced a three year programme of work to reline or replace 910km of watermains."

It is also planned to initiate work on improving the wastewater treatment facilities at Crossmaglen, Portballintrae and Bushmills. Improvements to the water treatment works at Seagahan (Armagh area) will continue throughout the year.

It is planned to target improvements to the watermain infrastructure in a number of areas throughout Northern Ireland. A total of 16 zones are programmed for work, that include Castlereagh, Castor Bay/Craigavon, Portballintrae, North Down and Bangor, Altmore, Cookstown and Ballynahone. This will continue the three year programme of work to reline or replace some 910km of watermains throughout Northern Ireland. Improvements to the sewer network will be undertaken at a number of locations including Portrush, Portadown, Ballycastle and Newcastle. Work will continue on improving the sewer network in Londonderry City as well as the flagship £100m Belfast Sewers Project.

Capital expenditure programme	2007/08 (actual) £'000	2008/09 (budget) £'000
Capital Works Programme	214,274	228,818
Small waste water treatment works	Nil	5,401
Engineering and Procurement Capitalised Salaries and Overheads	6,152	6,648
Capital Contributions	(4,170)	(6,212)
Technology Programme	4,264	5,044
Asset Management Northern Ireland Asset Management Plan ("NIAMP3")	1,515	4,161
Scientific Services	415	434
Information Communication Technology	1,324	1,852
Metering	490	6,175
Customer Billing	936	500
Operations (other capital)	17,351	13,974
Water connections	2,234	1,948
Other asset management	800	2,800
Mobile work management	5,200	3,561
Other Property Unit	Nil	2,120
Programme Management Office costs	Nil	581
Finance and Regulation Business Improvement costs	92	2,677
HR Strategy	1,089	500
Other	804	223
PPP capital	Nil	228
Total (Post Efficiency and Nominal*)	**252,770**	**281,433**

Figure 20 - Costs of the 2007/08 and 2008/09 Capital Expenditure Programmes

**After adjusting for inflation*


North Coast Wastewater Treatment Works


Culmore Wastewater Treatment Works


Fofanny Water Treatment Works

"NI Water recognises the critical importance of good operational management."

Cost of the Capital Expenditure Programme

A breakdown of the total capital expenditure planned for 2007/08 and 2008/09 is shown in figure 20. The major proportion of NI Water's capital budget arises from the work identified in the Capital Works Programme although there are other capital costs attributable to spend in areas such as technology and metering.

Operational Effectiveness

NI Water recognises the critical importance of optimising the existing asset base through good operational management and investment in technology to support better infrastructure management. This will build on current good practice with current compliance figures achieved through sustained attention to works which are operating beyond the capacity for which they were designed. The main steps undertaken in 2007/08 were:

- investment in telemetry for sites such as sewerage pumping stations not currently covered by the system to enable better early warning of plant and other operational failures to reduce pollution and flooding incidents;
- the development and implementation of improved maintenance approaches to mechanical and electrical equipment and plant to reduce the risk of operational failures through proactive, risk-based maintenance;

Tunnelling machine used for the £100m Belfast Sewers Project

"The implementation of Asset Management Systems are a central part of the regulatory arrangements."

- the introduction of mobile working technology and industry standard business processes which will deliver significant efficiency, service and asset management improvements; and
- through development of strategic and tactical asset management processes, better risk-based decision making to 'sweat' the asset base and target investment more effectively.

These activities will continue in 2008/09 with particular focus on investment in telemetry for sites such as sewerage pumping stations and wastewater treatment works not currently covered by the telemetry system to enable better early warning of plant and other operational failures to reduce pollution and flooding incidents and assist in early warning of performance problems at treatment works.


Engineer using Mobile Work Management technology

Asset Management

The implementation of Asset Management systems and preparation of the third Northern Ireland Asset Management Plan ("NIAMP3") are a central part of the regulatory arrangements introduced from April 2007.

The following activities were undertaken in 2007/08:

- the OneAm consortium (asset management partners) commenced work to assist NI Water both in the delivery of NIAMP3 and to assist in the implementation of new asset management systems and procedures;
- NI Water has started the implementation of the new 'Asset Management Model' ("AMM") which sets out the roles, responsibilities, team structure and resource requirements for applying good asset management practice in NI Water;
- development of single Corporate Asset Register ("CAR") for assets; and
- commencement of approach to track performance of the SBP capital investment and to develop the quality of management information in this area.

The following additional activities will be undertaken in 2008/09:

- acquire and deploy a Strategic Capital Investment Model ("SCIM") tool to prioritise and optimise capital investment;
- establish and refine a NI Water growth model to estimate future loads on wastewater treatment works using Planning Service and District Council information to facilitate performance and development in relation to headroom; and
- acquire and commence the population of a Unit Cost Database ("UCD") to provide consistent cost information which will be used for building programme costs, benchmarking, contract negotiation and developing efficiencies.

"NI Water requires capital investment of more than £3bn over the next 20 years to meet quality standards, improve quality of service and meet demand."

Public Private Partnerships ("PPPs")

NI Water requires capital investment of more than £3bn over the next 20 years to upgrade both water and wastewater assets and infrastructure in Northern Ireland. This investment will enable NI Water to meet the required drinking water and wastewater quality standards, and improve levels of service to meet the current and future demands of its customers. Given the extent of the water assets and infrastructure upgrades required to improve standards, ensure environmental compliance and increase capacity in the timeframe needed, it was recognised that the necessary resources cannot be met from traditional public sector funding alone. The major PPP Programme was launched in 2004. NI Water is using the PPP approach to upgrade water and wastewater facilities, and sludge disposal, through Design, Build, Finance and Operate ("DBFO") contracts, where affordable value for money can be obtained to meet its compliance timeframe. The Programme is split into Water and Wastewater PPP Projects known as the Alpha and Omega projects. The newly formed Contracts Unit also manages the existing Private Finance Initiative ("PFI") contract at Kinnegar.

Alpha Project

The Alpha Project will provide a bulk potable water supply to NI Water in excess of 396Ml/d. The water treatment facilities included in the Alpha project are located at Ballinrees, Castor Bay, Dunore Point, Forked Bridge and Moyola as well as associated link mains. These five major works will be consolidated to four sites as part of the improvement process.

Omega Project

The Wastewater Treatment Works included in the Omega project are Craigavon Area rationalisation (including Ballynacor, Bullays Hill and Seagoe), Armagh, Richhill, Ballyrickard, North Down / Ards and the Sludge Disposal Solution. The treatment capacity for these Omega Works is between a population equivalent of 300,000 and 303,000 excluding sludge disposal. The Omega project represents approximately 20% of Northern Ireland's current wastewater treatment capacity, and 100% of its sludge disposal capacity.

Dunore Point Water Treatment Works

"Commencing delivery of one of the largest business change programmes in the UK."

Business Improvement Programme...

Starting the changes

Introduction

NI Water is working to match or exceed the performance levels of similar companies in England and Wales against the key customer, environmental and financial parameters by 2009/10. This is a challenging timeframe; given that the English and Welsh industry has already had 18 years and over £50bn investment since its major reform of the water industry to make progress under a regulatory system which incentivises performance. The scale of change is truly transformational and should not be underestimated but it is a challenge to which NI Water looks forward to meeting.

NI Water recognises that a major Business Improvement Programme ("BIP") - known as the 'One Programme', is required to deliver a sustainable business delivering at those levels. The BIP consists of a series of major projects running up to 2010.

The Projects within the BIP are integrated within the business. Many of these projects are referred to under Customers, Cash, People and Compliance sub-sections within the 'Operational performance, management of resources and financial performance section.' However, we have provided further information on the BIP below.

Figure 21 - The One Programme

There are five major challenges facing NI Water in the successful delivery of the BIP.

1. Developing a **high quality performance culture** which delivers more efficient outputs from our core business processes in:
   - asset management;
   - capital works delivery;
   - operational management; and
   - delivery of customer and stakeholder requirements.
2. **Delivering efficiencies** - by 2009/10 NI Water must deliver very demanding efficiencies of:
   - £81.1m in capital cost expenditure; and
   - £53.8m of operating cost efficiencies (from a 2003/04 baseline).
3. **Developing our people and building our organisational capability**. In any major restructuring where a company is working in a new, more challenging environment, a substantial focus is required to ensure that the skills and capabilities of our people match the needs of the Company.

"The One Programme has already successfully delivered significant change."

4. We must improve our **information management and our systems**. Currently we do not collect, use or systemise data in a way that meets our own increasing needs or those of our Regulators. This means that we are data rich but information poor. We are developing an information strategy, supported by IT systems, to meet our managerial requirements and the needs of the Regulators and other stakeholders.
5. An additional key challenge for NI Water in 2008/09 is preparing to deliver the first Price Control ("PC10") with the Utility Regulator.

Progress to Date

The One Programme has already successfully delivered significant change in the context of the first year of NI Water. In particular during 2007/08 the Programme has delivered - in difficult initial circumstances and under intense stakeholder scrutiny -

- the £29.8m operational (from a 2003/04 baseline) and 2.1% capital efficiency savings targets for 2007/08;[1]
- successful implementation of Phase 1 and Phase 2 of the Mobile Work Management project;
- investment of £5m in technology improving our telemetry installations and our regulatory compliance;
- the development of an asset management model that will introduce good asset management practices across NI Water;
- in-depth research on the way that we procure goods and services;
- the implementation of a measurably improved 'New Connections' process for our customers; and
- a series of successful leadership events to communicate the One Programme to our staff and to commence engagement on the changing culture in the Company.

Key deliverables for 2008/09

Some of the key deliverables for 2008/09 are as follows:

- delivering the operational expenditure efficiencies of £38.6m (from a 2003/04 baseline) and cumulative capital expenditure efficiencies of £23.1m;
- phase 3 of Mobile Work Management to give our customers real time updates;
- developing an integrated strategy that will replace the existing contractual framework used for the procurement of the Capital Works Programme;
- implementing our Procurement and Contract Management Strategy; and
- implementing revised procedures and protocols for governance and delivery of the Programme.

Chris Mellor
Chairman and Acting Chief Executive
3 July 2008

1 Refer to Annex A on page 116.

Stakeholders

...building relationships of trust and respect.

NI Water understands the fundamental importance of its relationship with key stakeholders (figure 22). In order to deliver the infrastructure and service improvements that the people of Northern Ireland expect, strong relationships based on openness, trust and respect with each of these groups is essential. Further developing such relationships is a priority for the organisation.

NI Executive

The NI Executive sets the funding and delivery structure for water and sewerage services in Northern Ireland. The NI Executive outlined the objectives for its investment in the water and sewerage sector in its 'Programme for Government and Investment Strategy':

"(To) contribute to the health and well-being of the community and the protection of the environment by developing and maintaining a policy and regulatory environment which provides modern, high quality water and sewerage services."

The NI Executive is currently considering the recommendations made by the Independent Review Panel for Water and Sewerage Services.

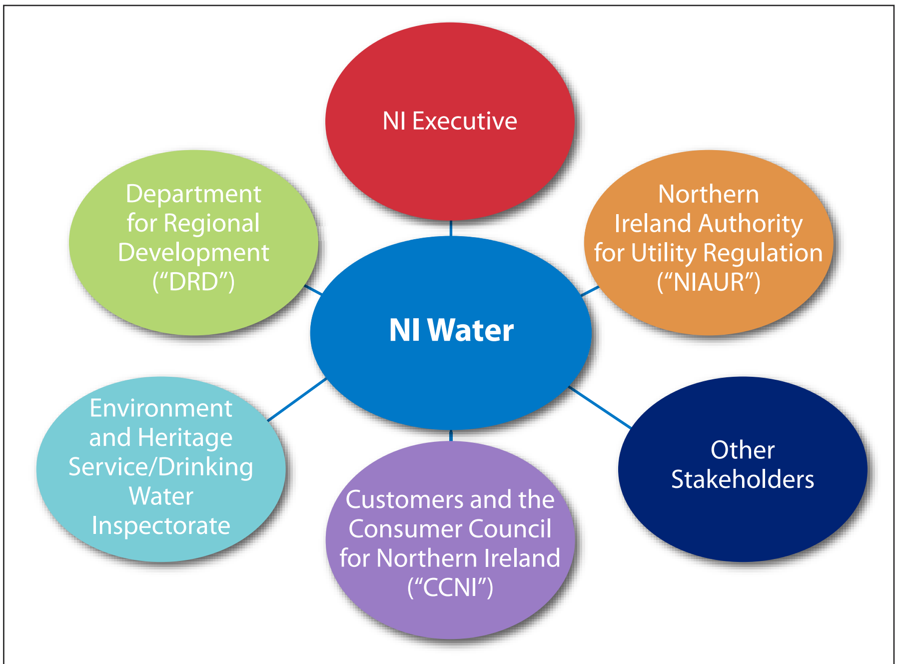


Figure 22 - Stakeholder diagram

Department for Regional Development ("DRD")

DRD is NI Water's sole Shareholder. In terms of water and sewerage services DRD has two separate units - Water Policy Unit which deals with matters of policy and the Shareholder Unit which manages DRD's shareholding in NI Water.

NI Water is currently funded through direct charges to non-domestic customers and subsidy provided by DRD. The Company recognises the importance of delivering the agreed rate of return for the investment made to the Shareholder and of securing growth to the regulatory value of the business - the Regulated Capital Value ("RCV"), through investing efficiently and in areas of highest priority.

Specifically in 2007/08 NI Water has:

- operated the agreed governance, funding and delegation arrangements in a positive manner;
- contributed effectively to the quarterly Shareholder meetings; and
- aimed to deliver the Shareholder's objectives through delivery of the Strategic Business Plan.

NI Water will continue to take forward these activities in 2008/09.

Northern Ireland Authority for Utility Regulation ("NIAUR") - the "Utility Regulator"

The Utility Regulator is the economic regulator responsible for safeguarding customer interests through securing value and quality outcomes for customers.

During 2007/08, NI Water:

- continued to work with NIAUR to develop a regulatory regime suited to the unique requirements of Northern Ireland and to meet the principles of better regulation;
- delivered the information required by NIAUR in terms of the Annual Information Returns on levels of service and performance against targets;

"NI Water met its obligations within the Regulatory Licence."

- engaged with NIAUR to ensure that NI Water can meet the requirements set out for the 2010 Price Control ("PC10") process; and
- met its obligations within the Regulatory Licence.

During 2008/09, NI Water will also:

- interact constructively and openly with the Reporter to facilitate improved understanding between NI Water and NIAUR;
- establish with NIAUR, the information requirements and timetable for the delivery of PC10 ; and
- engage with the NIAUR and all stakeholders in the development of an appropriate Guaranteed Standards Scheme.

Environment and Heritage Service ("EHS") and the Drinking Water Inspectorate ("DWI")

EHS and DWI are NI Water's environmental regulators responsible for overseeing the Company's attainment of environmental standards including safeguarding public health and preventing pollution.

Representatives from NIAUR, Newry and Mourne Enterprise Agency and the Consumer Council attending a stakeholder workshop on new non-domestic charges.

"NI Water engaged with the Consumer Council for Northern Ireland on the issues of greatest interest to customers."

In contrast to NIAUR, there are already established working relationships in place with both EHS and DWI. These relationships are evolving, particularly following the formation of NI Water and the consequent ending of Crown Immunity in view of the historic non-compliance against wastewater standards and the need to continue improvements to drinking water quality.

During 2007/08, NI Water:

- started to agree the quality programme's investment priorities for the period after 2010;
- met its regulatory requirements including the prompt and accurate reporting of significant non-compliance and other incidents and acted speedily to mitigate the impact of those failures;
- delivered regulatory information as required by EHS and DWI within agreed time limits; and
- operated the Statement of Regulatory Principles and Intent ("SORPI") agreed between the Company and its environmental regulators.

NI Water is focused to work with EHS and DWI during 2008/09 to:

- agree quality programme investment priorities for the period after 2010;
- agree quality programme investment priorities for small Wastewater Treatment Works;
- meet its regulatory requirements; including the prompt and accurate reporting of significant non-compliance and other incidents, and act speedily to mitigate the impact of those failures;
- deliver the required regulatory information; and
- operate the SORPI.

Customers and the Consumer Council for Northern Ireland ("CCNI")

CCNI is the organisation responsible for representing customer interests, with legal authority to deal with complaints. NI Water works closely with CCNI on a wide range of customer issues.

During 2007/08, NI Water:

- engaged with the CCNI on the issues of greatest interest to consumers;
- implemented the Complaints Procedure as developed in partnership with NIAUR and CCNI; and
- engaged with the CCNI, in accordance with the Licence, on the introduction of new Codes of Practice.

During 2008/09, NI Water will undertake the following:

- monitor and review the application of the recently published Codes of Practice;
- work with NIAUR, CCNI and the Shareholder in the development of a Guaranteed Standards Scheme, which will introduce compensation for customers for identified service failures;
- prepare for the introduction of domestic charging; and
- undertake customer surveys which will provide feedback on levels of satisfaction and assessment of customer priorities.

Other Stakeholders

NI Water recognises the importance of developing relations and improving communications with our other stakeholders including, Members of the Legislative Assembly ("MLAs"), consumer groups, environmental groups, the business community, local government and Non Governmental Organisations ("NGOs").

During 2007/08, NI Water actively engaged with stakeholders and developed and implemented a Stakeholder Communications Plan. During 2008/09, NI Water will undertake to:

- routinely and regularly communicate with our stakeholders on developments within the organisation;
- review how we engage with stakeholders and assess other areas of common interest;
- collaborate and communicate with our stakeholders to prepare for the introduction of domestic charging; and
- conduct a stakeholder survey to assess the levels of stakeholder satisfaction.

Corporate social responsibility

...operating responsibly

NI Water is committed to the highest standards of corporate social responsibility. The supply of drinking water and wastewater services has a significant impact on the success of the Northern Ireland economy, the quality of life of both employees and customers, and the quality of the natural environment.

NI Water is focusing on 'sustainability' across its business to deliver the highest standards of corporate social responsibility. The aim of sustainability is to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. NI Water targets three key areas: the economy, 'people and society' and the environment.

The Economy

NI Water plays a key role in the NI economy through its investment programme. NI Water invested at a rate of £1m per working day during 2007/08. One of our flagship investment projects is the Belfast sewers project.

Belfast Sewers Project

Work is progressing well on the £100 million Belfast Sewers Project designed to provide the greater Belfast area with a modern sewerage system by 2009/10. The project is designed to replace the existing 19th century sewer network which can no longer cope with the needs of the expanding city. The scheme will reduce the pollutant load from the sewerage system on the River Lagan and its tributaries by 85% of present levels; significantly reducing the risk of flooding and pollution.

The project is one of the largest civil engineering infrastructure projects in the UK. At 40 metres below ground the excavation is the deepest excavation ever in the Belfast area, some six metres greater than the height of the Albert Memorial Clock Tower. The excavation could hold four million gallons of water - the equivalent of seven Olympic swimming pools.

Belfast Sewers Project

"NI Water has made a substantial investment in providing employees with modern workwear."

People and Society

NI Water views its impact on its staff and the wider society as key to the delivery of its strategic objectives. Examples of our impact on these areas are demonstrated below.

Workwear

NI Water has made a substantial investment in providing employees with modern workwear. The workwear has been designed to be tough, practical and stylish, helping to create a unified, highly professional image for the organisation. The workwear allows customers and the public to easily recognise NI Water employees while providing employees with a strong, yet practical, corporate identity.

The workwear was well received by staff who commented favourably on both quality and style:

"people have commented on it saying that it portrays a more professional image. It also helps when calling to people's doors as we are easily recognisable as being from NI Water."

Staff member, Networks Sewage, Seagoe

"various customers have commented on the new uniform and I suppose it also gives them confidence as we look as if we have arrived from a recognised company and not in our own clothes/jeans."

Staff member, Bretland House, Belfast

Staff member displays the new NI Water branded workwear

Mobile Work Management ("MWM")

Toughbook devices have been provided for employees in Networks Water, Sewerage and Leakage. These Toughbooks are designed to provide employees with the information they need to manage and organise their work through introducing consistency in the scheduling of work and in the delivery of their jobs. The project aims to empower employees in the field by enabling the electronic receipt and recording of work.

Over 300 Field Operatives and 45 Field Managers have attended training on the new way of working since the MWM rollout commenced in December 2007. Currently there are over 270 Toughbook devices being used by Field Operatives on a daily basis to complete their work.

Engineer using the new toughbook

"Two full time educators visit approximately 100 schools every year."

Operatives received training on the Toughbooks over two days at a local depot. This was followed up with on the job support offered by the MWM field trainers. Operatives who have received training are now using the Toughbooks in their every day work:

" the majority of operatives within our organisation rarely used computers prior to training. We have had great attendance at all our training sessions to date and from the feedback that I have received operatives have enjoyed the training and have really taken to the challenge of using these Toughbooks."
MWM Project Manager

NI Water celebrate the halfway mark for the Mains Rehabilitation Programme

Education
NI Water has an extremely active education unit who carry out school visits and give interactive educational talks. The Company employs two full time educators who visit approximately 100 schools every year, supporting teachers at Key Stage 1 and 2. The education unit also uses a double decker bus, the Water Bus, that has been transformed into a state-of-the-art mobile education unit. On the Water Bus children can meet H20, our Water Wise Hero introducing the Wonderful World of Water and the Wild Water Lab.


Education Programme in action

This education unit aims to make children aware of a range of water issues such as the water cycle, water for health, water sources, water and wastewater treatment and water efficiency. The Water Bus uses a number of educational tools such as; displays, games, models, experiments, DVDs and computer facilities.

"Fofanny Water Treatment Works received the prestigious Environment Award at the 2007 Utility Industry Achievement Awards."

The Environment

NI Water recognises that its activities have a major impact on our environment and natural resources. Two examples are provided below to demonstrate how we have operated to high environmental standards.

Fofanny Water Treatment Works

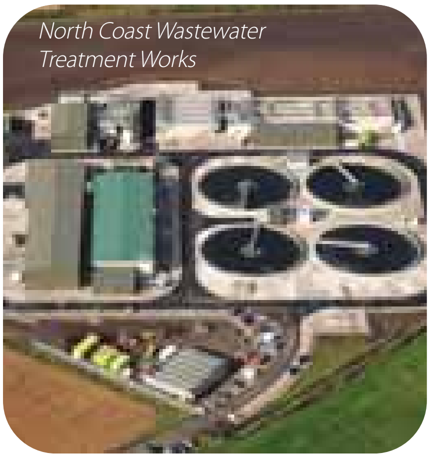
Fofanny Water Treatment Works, the only underground water treatment facility in Ireland, received the prestigious Environment Award at the 2007 Utility Industry Achievement Awards.

The Works won the illustrious award for *"demonstrating a clear and conscious commitment to good environmental management which goes further than legal or regulatory compliance."* This is the third major award for the project since it was officially opened. The design of the ground-breaking project, located in the heart of the Mournes, is an imaginative solution which helps reconcile the potential conflict between the need for water treatment and protecting the character and distinctiveness of the countryside.

The £18m treatment works which supplies water to around 100,000 consumers across South Down and parts of Armagh has been landscaped with local vegetation including over 10,000 native species of heather planted on the roof. The construction of Fofanny has combined innovative engineering skills and sustainable environmental practices to produce a fully integrated, highly sustainable, state-of-the-art water treatment facility for the 21st century.

North Coast Wastewater Treatment Works

The £45m North Coast Wastewater Treatment Scheme was officially opened in November 2007. Spanning a distance of approximately 16 kilometres between Castlerock and Portrush, the scheme is treating to the strictest EU standards, all of the sewage from Coleraine, Portrush, Portstewart, Castlerock and Articlave before it is discharged safely through the extended sea outfall. With the capacity to treat 54 million litres (54,000 tonnes) of wastewater a day, the new works has been designed to service the North Coast area to at least the year 2030.



North Coast Wastewater Treatment Works

The scheme was designed to improve the quality of bathing waters around the North Coast area by removing discharges of untreated water. All elements of the project have been carefully designed so that they blend into their respective surroundings and where possible enhance the amenity value of the area. In consultation with Coleraine Borough Council, NI Water integrated new public conveniences and changing facilities into the new Dhu Varren Pumping Station at West Bay, while the roof of the Lansdowne Pumping Station doubles up as a large viewing platform.

Fofanny Water Treatment Works - view from the approach by Slievenamen Road

Entrance to Fofanny Water Treatment Works

Directors' report

The Directors present their report, together with the audited financial statements for the year ended 31 March 2008.

Principal activities

The Company is wholly owned by the Department for Regional Development. The principal activities of the Company are the supply of water and the collection and treatment of sewage in Northern Ireland.

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 ended 31 March 2008 and of the position of the Company at the end of the financial year and a description of the principal risks and uncertainties facing the Company.

The information that fulfils these requirements can be found in the following sections of the Operating and Financial Review:

- review of results (refer to pages 4 to 17);
- operational performance (refer to pages 18 to 42);
- financial performance (refer to pages 24 to 27);
- KPIs (refer to pages 9 to 12, 18 to 42 and pages 116 to 127);
- Stakeholders (refer to pages 43 to 45)
- corporate social responsibility (refer to pages 46 to 49);
- risks and uncertainties (refer to pages 59 and 60); and
- financial risk management objectives and policies (refer to pages 24 to 27 and pages 59 to 60).

Dividends and reserves

The Company's dividend policy is to provide a return to the Shareholder based on 5.1% of the regulatory capital value less net debt. A final dividend of £34m for the year ended 31 March 2008 was approved by the Shareholder upon the recommendation of the Board on 20 March 2008 and was paid in May 2008 to the Shareholder.

Transfers to reserves are set out in note 22 to the financial statements.

Silent Valley Reservoir

Directors and Officers

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

- **Chris Mellor (1)** non executive Chairman.
  Chris joined as non executive Chair in February 2006. He spent five and a half years as Chief Executive Officer of Anglian Water Group up to 2003. Chris is a qualified accountant and has worked for nearly 29 years in the Water Industry in both the public and private sectors. He is also Deputy Chairman of Monitor - the Independent Regulator for NHS Foundation Trust Hospitals and Senior Independent Director of Grontmijj UK Ltd.

- **John Ballard (CB) (2)**, non executive Director.
  John is a non executive Director of Queen Elizabeth NHS Trust Hospital, a member of the Steering Board for the Marine Fisheries Agency and a Special Trustee of Great Ormond Street Children's Hospital Charity. He is a former Finance Director of the Department for Environment, Transport and the Regions ("DETR") and Water Director with the Department of Environment, Food and Rural Affairs ("DEFRA").

- **Ruth Thompson (OBE) (3)**
  non executive Director.
  Ruth holds a range of non executive Director posts, including One North East (a regional development agency), NHS NE Strategic Health Authority, the New and Renewable Energy Centre and Northumbria University. She is Chair of National Energy Action. Ruth is a former Group Corporate Affairs Director of National Grid plc. Having initially qualified and practised as a solicitor, she has held a number of senior management roles, in the energy industry.

- **Rose Hynes (4)**, non executive Director (resigned on 19 July 2007).

- **Ronan Larkin* (5)**
  Director of Finance and Regulation.
  Ronan joined Water Service in September 2005. He has previously been responsible for the commercial and financial roles in various organisations in the UK and Ireland. Ronan is responsible for the financial direction and economic regulation of the organisation, relationship with NIAUR and all aspects of corporate governance.

- **Katharine Bryan* (6)**, Chief Executive (Resigned on 31 May 2008).
  Katharine joined Water Service in January 2004 drawing on a senior management career in the water and environmental sectors in England, Scotland and Wales.

- **Phil Barker* (7)**, Director of Operations.
  Phil joined Water Service in September 2005 after 15 years working for Yorkshire Water. He is responsible for all water and wastewater operations focusing on service delivery, environmental and safety compliance and delivering a substantial efficiency programme.

- **Mark Ellesmere (8)**, Head of Legal and Company Secretary.
  Mark joined Water Service in June 2006 having previously been Head of Legal at First Trust Bank (AIB Group).

** Executive Directors*

"During 2007/08, NI Water invested £0.5m on research and development."

Directors' remuneration and annual bonus plan

Remuneration for executive Directors comprises base salary, an annual bonus plan and pension entitlements. 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 page 61 and in note 6 to the financial statements.

Directors' and Officers' indemnities

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

Policy on the payment of creditors

The Company's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative agreement, the policy is to make payment not more than 30 days after receipt of a valid invoice. The ratio, expressed in days, between the amount invoiced to the Company by its suppliers during the year and the amount owed to its trade creditors at 31 March 2008, was 31.5 days.

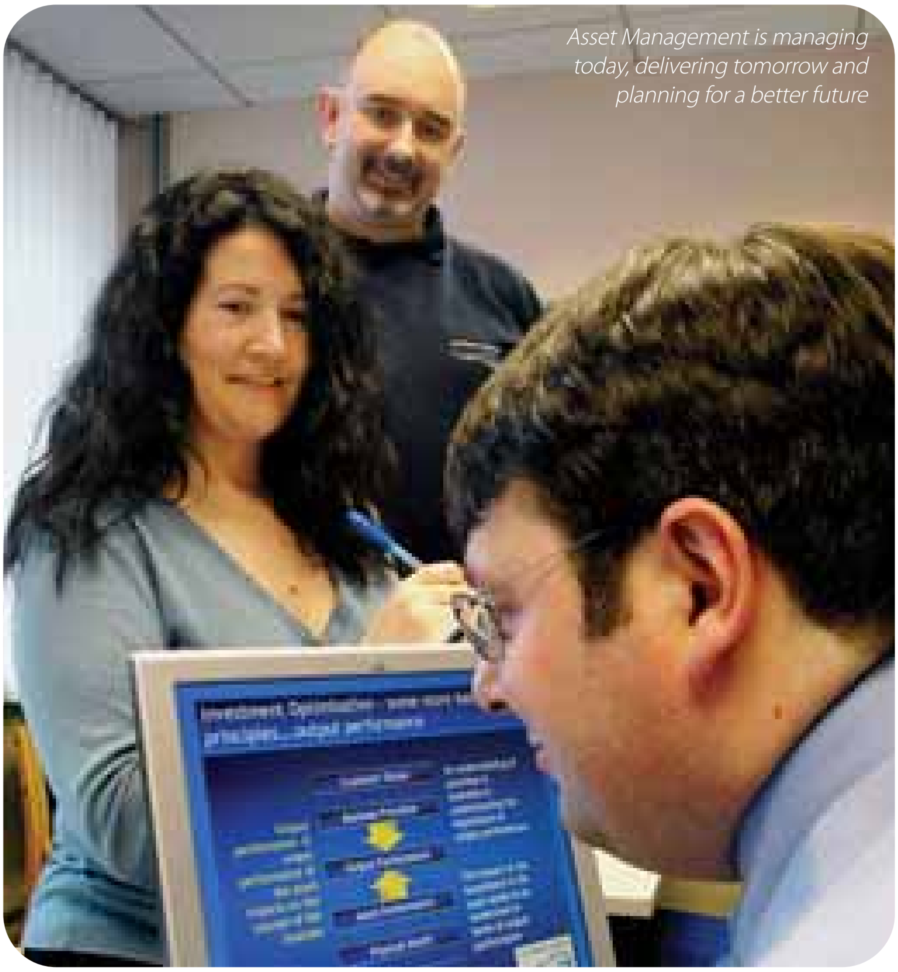
Political and charitable contributions

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

Research and development

NI Water invested £0.5m on research and development in 2007/08. Refer to note 1(j) to the financial statements for accounting treatment.

NI Water, together with other UK Water Companies, 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.



Asset Management is managing today, delivering tomorrow and planning for a better future

"NI Water supports UK University research projects."

NI Water also collaborates with and supports UK university research projects and is a member of Queen's University Environmental Science and Technology Research Centre ("QUESTOR"), an international environmental research organisation based at Queen's University Belfast.

Employees

It is our policy to provide employment equality to all, irrespective of gender, including gender reassignment; marital or civil partnership status; having or not having dependants; religious belief or political opinion; race (including colour, nationality, ethnic or national origins, being an Irish Traveller); disability; sexual orientation; or age.

We are opposed to all forms of unlawful and unfair discrimination. All job applicants, employees and others who work for us 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. Our equal opportunities policy will help all those who work for us to develop their full potential and the talents and resources of the workforce will be utilised fully to maximise the efficiency of the organisation.

Further details on employees are contained on pages 28 to 31.

Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2008, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs,

A staff member logs onto www.niwater.com

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.

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.

Auditors

KPMG were appointed as auditors during the year and a resolution for their reappointment as the Company's auditor was passed on 24 June 2008.

By order of the Board

Mark Ellesmere
Company Secretary
3 July 2008

Corporate governance

"The Company has complied with the majority of provisions within the Combined Code on Corporate Governance."

NI Water attaches great significance to the maintenance of good corporate governance procedures and adherence to best practice, recognising that this is critical to maintaining our credentials as a well managed provider of an essential public service to our customers, Shareholder, regulators and other stakeholders.

Compliance statement

This report describes the key features of the Company's governance structure and how NI Water has applied the principles of good corporate governance, as set out in the Combined Code on Corporate Governance ("the Combined Code"). Not all of the provisions of the Combined Code apply to NI Water as a Government owned company. Apart from the matter detailed below, the Company has complied throughout the financial year ended 31 March 2008 with the relevant Combined Code provisions.

Explanation of non compliance

The approval of the appointment of non executive Directors is the duty of the Minister. On 19 July 2007 Rose Hynes, a non executive Director, resigned because of a significant additional appointment. During the year, it was decided that a further independent non executive Director and an executive Director be appointed due to the increasing workload.

However, NI Water was advised by its stakeholders at that stage that it would be appropriate to delay the appointment of further directors to the Board until the conclusion of the Independent Water Review Panel established by the Minister. As a consequence, less than half of the Board are considered to be independent, due to the statement at A3.12 of the Combined Code which states that the chairman should, on appointment, meet the independence criteria set out in this provision, but thereafter the test of independence is not appropriate in relation to the chairman.

The Board

Board structure

During 2007/08 the Board consisted of a non executive Chairman, Chief Executive, two executive Directors and two non executive Directors. In accordance with the Combined Code, separate individuals, Chris Mellor and Katharine Bryan, were appointed to the positions of Chairman and Chief Executive respectively. Katharine Bryan resigned on 31 May 2008 and Chris Mellor took up the role of Acting Chief Executive. John Ballard is the senior independent non executive Director.

The Company believes that the Board has an appropriate mix of experience and expertise to oversee the business and to maximise the effectiveness of the Board ensuring that matters are fully debated and that no individual or group dominates the Board's decision making process.

The Board has reviewed the status of the non executive Directors and considers them all to be independent in character and judgment and within the definition of this term in the Combined Code. Note that per the Combined Code, as mentioned above, the Chairman should, on appointment, meet the independence criteria set out in this provision, but thereafter the test of independence is not appropriate in relation to the Chairman.

The Chairman and the non executive Directors contribute external expertise and experience in areas of importance to the Company such as corporate governance, financial management, corporate, social and environmental strategy, systems of internal control and risk management. They also provide independent challenge and rigour to the Board's deliberations.

Whilst the Board recognises that the appointment of two further non executive Directors is critical in the long term, the Board is satisfied it has all of the necessary skills, experience and qualities to lead the Company.

"The Board has ultimate responsibility for ensuring that the Company is properly managed and achieves its strategic objectives."

Directors and their interests
The names and biographies of the Directors currently serving on the board are set out on page 51. The training needs of all Directors are kept under review and appropriate training identified as part of a continuing process.

Details of the Directors' employment agreements and interests are shown in the Directors' remuneration report.

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, 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 and committee meetings and the attendance of the Directors at those meetings are shown in figure 23. The Chairman has prime responsibility for the effective workings of the Board and agrees the agenda in consultation with the Chief Executive and the Company Secretary. Papers, including minutes of Board committees held since the previous Board meeting and reports, are circulated in advance of each meeting. In addition to the Board meetings, the Chairman meets with the non executive Directors without the executive Directors present. The non executive Directors, led by the senior independent non executive Director, also have an annual meeting where there is an opportunity for them to meet without the Chairman to appraise the Chairman's performance.

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

- Katharine Bryan* Chief Executive (resigned 31 May 2008);
- Ronan Larkin* Finance and Regulation;
- Phil Barker* Operations;
- Mark Ellesmere Head of Legal and Company Secretary;
- George Butler Asset Management;
- Trevor Haslett Engineering and Procurement;
- William Duddy Customer Services;
- Liam Mulholland Business Improvement (appointed on 9 May 2007);
- Pauline Shepherd Human Resources; and
- David Gilmour Commercial (appointed on 1 April 2008).

** Executive Directors*

NI Water staff display the prestigious Environment Award for Fofanny Water Treatment Works received at the 2007 Utility Industry Achievement Awards

"The Board has established an effective committee structure to assist in the discharge of its responsibilities."

Procedures are in place which allow Directors to take independent professional advice in the course of their duties and 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 will bring it to the attention of the Board.
NI Water purchases directors' and officers' liability and indemnity insurance to cover its Directors and Officers against the costs of defending themselves in civil proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings.

Board Committees

The Board has established an effective committee structure to assist in the discharge of its responsibilities. The terms of reference of the Audit Committee, Risk and Reputation Committee, Remuneration and Nomination Committee and the Asset Investment Committee (the "Principal Committees") comply with the provisions of the Combined Code and may be obtained on written request from the Company Secretary at the address given on the back cover of this report.

Each of the Committees has reviewed its effectiveness and terms of reference during the year and any necessary actions have been identified and reported to the Board.

	Board Meeting	Audit Committee	Risk & Reputation Committee	Nomination & Remuneration Committee	Asset Investment Committee
Chris Mellor	11	3	5	5	4
John Ballard	10	4	5	5	4
Ruth Thompson	9	-	5	4	-
Rose Hynes[1]	1	2	-	1	-
Katharine Bryan[2]	10	2	5	-	3
Phil Barker	9	-	4	-	3
Ronan Larkin	10	4	-	-	3
Total	**11**	**5**	**5**	**5**	**4**

Figure 23 - Attendance at Board and Principal Committees' meetings (2007/08)
1 Resigned on 19 July 2007   2 Resigned on 31 May 2008

The membership of all Board committees is set out below:

Audit Committee
- Rose Hynes* (Chair   resigned 19 July 2007);
- John Ballard* (Chair - post 19 July 2007); and
- Chris Mellor (proxy member)* (1).

Nomination and Remuneration Committee
- Ruth Thompson* (Chair);
- Chris Mellor*; and
- John Ballard*.

Asset Investment Committee
- John Ballard* (Chair);
- Chris Mellor*;
- Katharine Bryan** (Resigned 31 May 2008);
- Ronan Larkin**;
- Phil Barker**;
- George Butler***; and
- Trevor Haslett***.

"The Audit Committee has reviewed risk management and the effectiveness of the system of internal control."

Risk and Reputation Committee
- Ruth Thompson* (Chair);
- Chris Mellor*; and
- John Ballard*.

** non executive Director*
*** executive Director*
****Executive*
(1) Chris Mellor, as Chair of the Board cannot be considered as independent. However, since the resignation of Rose Hynes in July 2007 he has been attending Audit Committee meetings as a proxy member to fulfill the minimum quorum of two members.

Audit Committee
John Ballard took up the post as Chair of the Audit Committee on 22 October 2007, following the resignation of Rose Hynes on 19 July 2007. John Ballard has been identified by the Board as having recent and relevant financial experience. Only independent non executive Directors may serve on the Committee.

The Committee meets with the Company's external auditors ("the Auditors") at least four times a year. By invitation of the Committee other individuals such as the Chairman, Chief Executive, Company Secretary, Director of Finance and Regulation and Head of Internal Audit will normally be in attendance for all or part of those meetings. The Committee and the Auditors also hold separate meetings without the attendance of executive management.

In their assessment of the independence of the Auditors, the Committee receives annually in writing details of relationships between the Auditors and the Company, which may bear on the Auditor's independence and receives confirmation that they are independent of the Company as required by International Standard on Auditing (UK and Ireland) 260.

The Audit Committee annually approves the level of the Auditors' fees in respect of the audit of the financial statements and regulatory accounts of the Company, and consider the adequacy of the Auditors' proposed audit plan and approves the letter of engagement.

A formal policy, which includes fee limits, has been adopted for non audit services. Any material project work where the aggregate fees payable to the Auditors are likely to exceed £50k in a year or where any individual fees in relation to non audit services is more than 50% of the annual audit fee must be approved by the Committee.
The level of non audit services provided by the Auditors and the associated fees are considered annually by the Committee, in the context of the Auditors' independence, as part of the Committee's review of the adequacy and objectivity of the audit process. An analysis of fees payable to the Auditors in respect of audit and non audit services is provided in note 5 to the financial statements.

The Audit Committee has primary responsibility for making a recommendation to the Board on the appointment, reappointment and removal of the Auditors.

The Audit Committee has, throughout the year, monitored the integrity of the financial statements together with the Company's formal announcements relating to its financial performance, paying particular attention to significant reporting judgments contained therein.

The Audit Committee has reviewed risk management and the effectiveness of the system of internal control during the year ended 31 March 2008 and has reported to the Board on the outcome of this review.

The effectiveness of the Company's internal audit function has been reviewed by the Audit Committee.

The Audit Committee reviews annually the Company's formal whistle blowing policy that deals with allegations from employees and outsiders relating to breaches of the Company's Code of Business Ethics.

Nomination and Remuneration Committee
The Nomination and Remuneration Committee has been chaired by Ruth Thompson since September 2007. The other members of the Committee are John Ballard and Chris Mellor (Chairman of the Board, who was considered independent on appointment). Only independent, non executive Directors, may serve on the committee. The Chief Executive, Company Secretary, HR Executive and other external advisers also attend the Nomination and Remuneration Committee meetings at the invitation of the Committee Chair. The Committee normally meets at least four times a year.

The Nomination and Remuneration Committee determines, on behalf of the Board, the NI Water policy on the remuneration of executive Directors and Executives.

"Performance and effectiveness reviews are undertaken for the Board and its Committees."

Further information on the activities of the Nomination and Remuneration Committee is given in the Directors' remuneration report on pages 61 to 63.

The Directors' remuneration report also describes how the principles of the Combined Code are applied in respect of remuneration matters and includes a statement on the Company's policy on Directors' and Executives' remuneration, benefits and pension arrangements. 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 so as to maintain an appropriate balance of skills and experience on the Board.

Asset Investment Committee

The Asset Investment Committee is chaired by John Ballard, independent non executive Director, and its members are the Chairman of the Board, Chief Executive, Director of Finance and Regulation, Director of Operations and Executives with responsibilities for Asset Management, Engineering and Procurement. Other executive Directors, Executives, senior management and external advisors may be invited to attend meetings as considered appropriate. The Committee normally meets four times a year.

The Committee makes recommendations to the Board concerning:

- approval of Northern Ireland Asset Management Plans ("NIAMPs");
- approval of the current medium term capital programme and budget; and
- approval of the annual capital programme and budget.

Risk and Reputation Committee

The Risk and Reputation Committee is chaired by Ruth Thompson and its members are Chris Mellor, Chair of the Board and John Ballard, independent non executive Director. The Chief Executive, Company Secretary and other executive Directors, Executives and senior management involved in managing areas of the businesses or formulating policies within the Company are regularly invited to attend committee meetings. The Committee normally meets four times a year.

The Committee's main responsibility is to ensure appropriate strategies and controls are in place to improve performance in relation to risk management for the non-financial risks which include customer care, reputation, management, public health and safety, environmental performance and sustainable development, diversity and equality, the development of occupational health and well being of employees, community investment and security.

Meetings

Details of the Board and Board Committees' meetings attended by each Director during the financial year are shown on figure 23.

Directors' interests in contracts

No Director had a material interest at any time during the year in any contract of significance with the Company.

Remuneration

The Directors' remuneration report, which includes a statement on the Company's policy on Directors' remuneration, is set out on pages 61 to 63.

Reappointment

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

Performance and effectiveness reviews

During the year the Board, with the help of an external facilitator, carried out an evaluation of its performance and that of its committees. Each Director and the Company Secretary answered a questionnaire on his/her perception of the composition, operation and effectiveness of the Board and its committees and on the performance of the Chairpersons of the Board and its committees. In addition they were interviewed by the facilitator

"The Board undertakes monthly monitoring of financial results, regulatory compliance and other key business measures."

to explore certain issues in greater depth and to identify areas requiring improvement.

Shareholder relations

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

Internal control

Internal control and risk management

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board reviews the effectiveness of the system of internal control, including financial, operational, compliance and risk management, at least annually in accordance with the requirements of the Combined Code. The system of internal control is reviewed for 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 reviews risk management and the effectiveness of the system of internal control through the Audit Committee and the Risk and Reputation Committee. The Board also keeps under review ways in which to enhance the control and audit arrangements in the Company.

The Audit Committee and Risk and Reputation Committee receive quarterly reports from the Executive Team on the significant financial and non financial risks faced by the Company, an assessment of the effectiveness of controls over each of those risks and an action plan to improve controls where this has been assessed as necessary. Any significant control weaknesses that have been identified as requiring remedy are also reported to the Audit Committee and Risk and Reputation Committee respectively.

The Internal Auditors report on significant control issues to these Committees and provide objective assurance and advice on risk management and control.

The Board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks faced by the Company, have been in place for the year to 31 March 2008 and up to the date of the approval of the Annual Report.

Key elements of the Company's processes and procedures are:

- an organisation structure with clear lines of accountability;
- regular, structured reviews of business risk by senior management;
- a scheme of delegated authority;
- pre-approval of plans, budgets and significant investments;
- monthly reporting and monitoring of financial results, regulatory compliance and other key business measures; and
- annual assurance provided by Internal Auditors.

Work continues to review and improve the system of internal controls across the Company. Any control weaknesses identified have action plans to remedy them and those plans are monitored by the Audit Committee, Risk and Reputation Committee and the executive management.

Principal risks

The Company is exposed to a number of commercial risks and uncertainties which could have a material impact on our business, financial condition, operations and reputation. We have a risk management framework in place that will help manage these risks if they were to arise such that the impact on the Company would be reduced to an acceptable level.

Surfers enjoying the bathing water at Benone Beach, North Coast

1. The Independent Water Review Panel's reports (Strand 1 and 2) have implications in the way NI Water is funded and how the services are delivered in the future.
The Minister for Regional Development set up the Independent Panel to review the reform process; make recommendations on the level of funding needed; and advise the NI Executive on how the services should be structured in future.

Strand 1 'Cost and Funding' was issued in October 2007 and Strand 2 'Management, Governance and Delivery' was issued in January 2008. NI Water will continue to liaise with the Minister and other stakeholders to ensure that the implementation of approved recommendations would be done within an appropriate timescale taking customers and environmental needs into consideration.

2. The robustness and accuracy of data that is used for our reporting requirements is continually being improved.
NI Water is continually making improvements in its systems and controls to capture the information for reporting requirements. This includes working with our Stakeholders and ongoing work within our Business Improvement Programme, such as the Management Information, Information Communications Technology ("ICT") and Asset Management projects which will improve the accuracy and speed of information available for reporting.

3. The inherited aged and under-funded asset base in the past could affect our financial position.
NI Water has inherited an aged and under-funded asset base upon transfer in April 2007. We may encounter failure in our assets or to maintain the continuity of our operational systems. This could cause, for example, an interruption to the supply of drinking water and management of wastewater services. In addition, we are subject to other risks which are largely outside our control, such as energy costs, the impact of climate change, weather or unlawful acts by third parties, including pollution. NI Water has a Major Incident Plan in place and will continually work with other agencies to manage these events as they arise.

4. The results of our operations depend on a number of factors such as cost and efficiency savings as set out in our Strategic Business Plan.
Earnings from subsidy and the regulated water business are linked to our ability to meet our agreed Key Performance Indicators ("KPIs") and regulatory targets. NI Water has established and is in the process of implementing a Business Improvement Programme to make improvements and deliver efficiencies over the next three to five years.

5. Changes in environmental protection laws and the regulations that govern our business could increase compliance costs.
NI Water works closely with our Environmental Regulators to implement new laws and regulations. These establish standards for drinking water and discharges into the environment which affect our operations.

The Company will continually engage with the Environmental Regulators to ensure that the implementation of new legislation is done within the time allocated and with clear benefits to our customers and our environment.

6. If domestic billing were to proceed, the system to deliver new domestic billing will depend on confirmation of domestic charging and billing requirements and the necessary timescales for implementation.
Our previous preparation for the originally planned introduction of domestic billing would indicate that a minimum seven month lead time would be required to re-activate a similar Scheme and possibly longer if a radically new Scheme is devised. The Company will continue to liaise closely with stakeholders to ensure that the implications of any emerging proposals would be managed and communicated to our customers.

Directors' remuneration report

The Nomination and Remuneration Committee is responsible for the remuneration policy generally within the Company and for approving all aspects of executive Directors' and Executives' remuneration and for ensuring that the remuneration policy is followed throughout the organisation.

The remuneration of non executive Directors is determined by the Shareholder.

Nomination and Remuneration Committee

The members of the Nomination and Remuneration Committee during the year were as follows:

- Ruth Thompson (Chair);
- Chris Mellor; and
- John Ballard.

All the members of the Nomination and Remuneration Committee are non executive Directors considered to be independent except for the Chair of the Board. Refer to page 54 for explanation of non compliance.

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

- PricewaterhouseCoopers (financial advisors);
- Dundas and Wilson (legal advisors);
- Chief Executive;
- HR Executive; 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 ongoing success of the business.

May 2007 opening of Culmore Wastewater Treatment Works

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 comprise a mix of performance-related and non performance related remuneration designed to incentivise Directors and align their interests with those of the Shareholder.

The remuneration consists of the following elements:

- **Base salaries**

  Base salaries are reviewed annually for each executive Director and Executive, and are determined with regard to the market median for similar roles in utility companies of comparable size and so far as practicable, undertaking similar activities. Salaries are set with reference to individual performance, experience and contribution together with developments in the relevant employment market and internal relatives.

- **Annual bonus**

  An annual bonus scheme for Executive Directors was proposed for 2007/08 subject to approval by the Shareholder and to the achievement of targets. Under the proposed scheme bonuses of up to 20% of the Directors' basic salary could have been payable. No bonuses were paid to Directors for 2007/08.

There have been no departures from this policy in the current year. The current policy is expected to continue in place through the next financial year.

The proportion of total salaries attributable to Directors (executive and non executive) in 2007/08 was 0.79%.

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 per day and the non executive Directors receive a fee of £750 per day.

Directors' Employment Contracts

Executive Directors transferred from Water Service to NI Water under the Transfer of Undertakings (Protection of Employment) ("TUPE") regulations. Unless otherwise stated below, the Directors covered by this report hold appointments, which are open ended until they reach the normal retiring age of 60. The policy relating to notice periods and termination payments is contained in the Northern Ireland Civil Service ("NICS") Staff Handbook.

Pension entitlements

Non executive Directors do not participate in the Company's pension scheme.

All executive Directors are members of the final salary pension arrangements.

Set out below 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.

		Salary and Allowances 2007/08 £'000	Benefits in kind 2007/08 (to nearest £100)	Total 2007/08	Total 2006/07*
Katharine Bryan	Chief Executive (resigned 31 May 2008)	154	Nil	**154**	175 - 180
Phil Barker	Director of Operations	114	Nil	**114**	110 - 115
Ronan Larkin	Director of Finance and Regulation	102	Nil	**102**	100 - 105

Figure 24 - Fees paid to executive Directors

		2007/08		2006/07*	
		Salary and allowances £'000	Benefits in kind (to nearest £100)	Salary and allowances £'000	Benefits in kind (to nearest £100)
Chris Mellor	Chairman	**73**	Nil	35 - 40	Nil
Rose Hynes	(resigned 19 July 2007)	**5**	Nil	20 - 25	Nil
Ruth Thompson		**25**	Nil	25 - 30	Nil
John Ballard		**29**	Nil	20 - 25	Nil

Figure 25 - Fees paid to non executive Chairman and non executive Directors

* The 2006/07 comparatives relate to the predecessor organisation, NI Water Service.

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 are similar to all former employees of NI Water Service. The executive Directors who transferred to NI Water automatically became members of the new scheme and are currently involved in a transfer exercise to decide if benefits they accrued in the Principal Civil Service Pension Scheme are to be transferred to the new NI Water scheme. Further details on pensions are provided in note 26 to the financial statements and on page 27.

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 detail on Directors' remuneration is shown in note 6 to the financial statements.

Chris Mellor
Chairman and Acting Chief Executive
3 July 2008

		Accrued pension at age 60 as at 31 March 2008 £'000	Related lump sum as at 31 March 2008 £'000	Real increase in pension at age 60 £'000	Real increase in lump sum at age 60 £'000
Katharine Bryan	Chief Executive (Resigned 31 May 2008)	**3**	-	3	-
Phil Barker	Director of Operations	**2**	-	2	-
Ronan Larkin	Director of Finance and Regulation	**2**	-	2	-

Figure 26 - Pension benefits for executive Directors

		CETV at 31 March 2008 £'000	CETV at 31 March 2007 £'000	Real increase in CETV less Director's contribution £'000	Director's Contribution £'000
Katharine Bryan	Chief Executive (Resigned 31 May 2008)	**51**	-	46	5
Phil Barker	Director of Operations	**24**	-	20	4
Ronan Larkin	Director of Finance and Regulation	**23**	-	19	4

Figure 27 - Pension (CETV) benefits for executive Directors

Statement of Directors' responsibilities

Engineers conducting maintenance on pipework

The Directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 UK Accounting Standards 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies (Northern Ireland) Order 1986 and reflect the relevant provisions of the Water and Sewerage Services (Northern Ireland) Order 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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 2008 which comprise the Profit and loss account, the Balance sheet, the Cash flow statement, the Statement of total recognised gains and losses, the Reconciliation of movements in Shareholder's funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with article 243 of the Companies (Northern Ireland) Order 1986. 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 auditors' 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 Auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 64.
Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Northern Ireland) Order 1986. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

The information given in the Directors' report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review Section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements.
We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within it. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986 and reflect the relevant provisions of the Water and Sewerage Services (Northern Ireland) Order 2006; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG
Chartered Accountants and registered auditors, Belfast

3 July 2008

Financial Statements

Profit and loss account for the year ended 31 March 2008

	Note	2007/08 £'000	2006/07 £'000
Turnover	3	**297,717**	-
Total operating costs	4	**(233,831)**	-
Operating profit	5	**63,886**	-
Other interest receivable and similar income	8	**2,236**	-
Other finance income	9	**420**	-
Interest payable and similar charges	10	**(9,741)**	-
Profit on ordinary activities before taxation		**56,801**	-
Tax on profit on ordinary activities	11	**(15,756)**	-
Profit for the financial year*		**41,045**	-

All the results shown derive from continuing activities.

* Prior to deduction of dividend - see Reconciliation of movements in Shareholder's funds - page 69

Balance sheet at 31 March 2008

	Note	2007/08 £'000	2007/08 £'000	2006/07 £'000	2006/07 £'000
Fixed assets					
Tangible assets	13	**1,094,094**		-	
Investments	14	**106**		-	
			1,094,200		-
Current assets					
Stocks	15	**2,405**		-	
Debtors	16	**30,715**		-	
Cash at bank and in hand		**58,005**		-	
		91,125		-	
Creditors: amounts falling due within one year	17	**(144,954)**		-	
Net current liabilities			**(53,829)**		-
Total assets less current liabilities			**1,040,371**		-
Creditors: amounts falling due after more than one year					
Loans and other borrowings	18	**(307,560)**		-	
Other creditors	19	**(12,798)**		-	
			(320,358)		-
Provisions for liabilities	20		**(31,891)**		-
Net assets excluding pension asset			**688,122**		-
Pension asset	26		**5,619**		-
Net assets including pension asset			**693,741**		-
Capital and reserves					
Called up share capital	21		**500,000**		-
Statutory distributable reserve	22		**171,690**		-
Profit and loss account	22		**22,051**		-
Shareholder's funds			**693,741**		-

These financial statements were approved by the Board of Directors on 3 July 2008 and were signed on its behalf by:

Chris Mellor, Chairman and Acting Chief Executive
3 July 2008

Cash flow statement for the year ended 31 March 2008

	Note	2007/08 £'000	2006/07 £'000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		**63,886**	-
Depreciation charges		**48,027**	-
Amortisation of deferred grants and contributions		**(353)**	-
Loss on sale of fixed assets		**31**	-
PPP residual asset credits (see note 25)		**(524)**	-
Decrease in stocks		**4**	-
Decrease in debtors		**2,692**	-
Increase in creditors		**26,352**	-
Adjustment for non cash FRS 17 movements		**3,248**	-
Net cash inflow from operating activities		**143,363**	-
Returns on investments and servicing of finance	*27*	**(7,385)**	-
Capital expenditure and financial investment	*27*	**(234,776)**	-
Cash outflow before management of liquid resources and financing		**(98,798)**	-
Management of liquid resources	*27*	**(54,000)**	-
Financing	*27*	**157,560**	-
Increase in cash in the period		**4,762**	-

Statement of total recognised gains and losses

for the year ended 31 March 2008

	2007/08 £'000	2006/07 £'000
Profit for the financial year	**41,045**	-
Actuarial gain recognised in the pension scheme	**21,374**	-
Deferred tax arising on gains in the pension scheme	**(6,412)**	-
Total recognised gain relating to the financial year	**56,007**	-

Reconciliation of movements in Shareholder's funds

for the year ended 31 March 2008

	2007/08 £'000	2006/07 £'000
Profit for the financial year	**41,045**	-
Dividends on ordinary shares	**(33,956)**	-
Retained profit	**7,089**	-
Other recognised gains and losses relating to the year (net)	**14,962**	-
Issue of Share Capital	**500,000**	-
Distributable reserves arising under the Water and Sewerage Services (Northern Ireland) Order 2006	**171,690**	-
Net addition to Shareholder's funds	**693,741**	-
Opening Shareholder's funds	**-**	-
Closing Shareholder's funds	**693,741**	-

Notes to the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

(a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules and in accordance with the accounting policies as set out below.

The Company has not adopted FRS 26 "Financial instruments: recognition and measurement" and therefore the disclosure requirements of paragraphs 51 to 95 of FRS 25 "Financial instruments: disclosure and presentation" are not applicable.

The financial statements are being prepared on a going-concern basis not withstanding the net current liabilities at 31st March 2008, the majority of which relates to capital expenditure which is explicitly funded by the Shareholder, DRD.

(b) Turnover

Turnover represents:
(i) The income receivable (excluding VAT) in the ordinary course of business for goods and services provided and, in respect of unbilled charges, includes an accrual for estimated consumption not yet invoiced; and
(ii) Customer subsidy provided by the DRD relating to the deferment of the introduction of domestic charges that were planned for 1 April 2007.

(c) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

(i) Infrastructure assets

Infrastructure assets comprise a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls. The Company has adopted "Renewals Accounting" in respect of infrastructure assets under which expenditure relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and recorded at cost along with related capital grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, which is based on the Company's Asset Management Plan, which was independently reviewed by the Interim Reporter (a professional commentator and reviewer for NI Water Service). A full Reporter was appointed in 2007/08 to examine, test and give his opinion to NIAUR on the regulated activities of NI Water.

(ii) Other assets

Other assets comprise:
a) land and non operational buildings;
b) operational assets (comprising sites used for water and wastewater treatment, pumping or storage where not classified as infrastructure); and
c) vehicles, mobile plant and equipment, and are included at cost less accumulated depreciation. Cost includes own work capitalised comprising the direct costs of materials, labour and applicable overheads. Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off cost less the estimated residual value of the relevant assets on a straight line basis over their estimated economic lives, which are primarily as follows:

Asset Type	**Asset Life**
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

Fixed assets are assessed for impairment in accordance with Financial Reporting Standard ("FRS") 11 'Impairment of fixed assets and goodwill', if an appropriate trigger arises.

Interest costs relating to the acquisition of fixed assets have not been capitalised.

1 Accounting policies (continued)

(d) Grants, contributions and capital subsidies

Grants, contributions and capital subsidies for capital expenditure include government grants, infrastructure charges, connection charges, requisitioning of watermains or sewers, sewer adoption fees and contributions from third parties.

Capital subsidies are available for infrastructure charges and requisitioning of watermains and sewers.

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 provisions of the Companies (Northern Ireland) Order 1986. 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 (Northern Ireland) Order 1986 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, while a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income.

(e) Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

(f) Private Finance Initiative ("PFI") transactions

The transfer of ownership of the assets and liabilities of Water Service from an agency of the DRD to Northern Ireland Water Limited on 1 April 2007 (see note 2) included the transfer of a number of PFI contracts for the supply of water and wastewater services. Where the balance of risks and rewards of ownership of the assets involved in the supply of services was deemed to be borne by the PFI operator the associated payments have been recorded as an expense in the profit and loss account. For these contracts the assets are to revert to the Company at the end of the contract and a residual asset will be built up on the balance sheet through the course of the contract by crediting the profit and loss account and the final residual asset value will reflect the difference between the expected fair value of the residual on reversion and the agreed payment on reversion.

Where the balance of risks and rewards of ownership of the contract is borne by the Company the asset is recognised as a fixed asset and the liability is accounted for as a finance lease. Contract payments are apportioned between capital repayments against the liability, an imputed finance lease charge on the liability and a service charge.

(g) Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

(h) Investments

Fixed asset investments consist of ordinary shares and loan stock in WRc PLC (see note 14). These are valued at current cost less any impairment.

(i) Post-retirement benefits

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme deficit is recognised in full (net of deferred tax). The movement in the scheme deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

(j) Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

(k) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rate ruling at the year-end. Exchange differences are taken to the profit and loss account.

Notes to the financial statements

1 Accounting policies (continued)

(l) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed at the balance sheet date, except as otherwise required by FRS 19.

(m) Dividends on shares presented within Shareholder's funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

(n) Capital Instruments

i) Debt instruments

All loans and borrowings are initially recognised at cost, being the net fair value of the consideration received net of issue costs. These loans are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Finance costs are recognised at a constant amount of the carrying value of the debt.

ii) Derivative financial instruments

The Company has not entered into any derivative financial instruments in its first year of trading.

(o) Bad Debts

The bad debt provision is based on applying expected recovery rates, based on actual historical cash collection performance, to an aged debt profile.

(p) Current asset investments

Cash deposits with a maturity of greater than three months are classified as current asset investments within the balance sheet. Cash deposits with a maturity of greater than one day but less than three months are classified as cash at bank and in hand within the balance sheet but are classified within liquid resources for the purposes of the cash flow statement.

(q) Provisions

Provisions are recognised whenever the Company has a present obligation for a past event, for which it is probable that a transfer of economic benefits will be required and a reliable estimate can be made of the amount of the obligation. Provisions of a long-term nature are discounted to reflect the time value of money in the estimated period over which the provision will be utilised. A risk-free rate of discount has been used.

(r) Redundancy Costs

Redundancy costs are charged to the profit and loss account in the period in which the Company both becomes irrevocably committed to incurring the costs and has raised a valid expectation with, and announced the main features of the programme to, affected employees or their representatives.

2 Formation of Northern Ireland Water Limited

On 1 April 2007, as an integral part of the Government's Water Reform programme, the assets and liabilities of Water Service ("NIWS"), an Executive Agency of DRD, were transferred to Northern Ireland Water Limited ("NI Water"), a government owned company. NI Water is wholly owned by DRD. NI Water has assumed all of the responsibilities of NIWS in delivering water and sewerage services to the province. The objective in establishing NI Water was to create, in the longer term, a self financing, fully regulated utility outside the Northern Ireland Civil Service.

However with the deferment of the introduction of domestic water charges into the province, DRD will provide revenue and capital subsidies to NI Water.

NI Water prepares it's accounts under UK GAAP and relevant companies legislation as opposed to the NIWS which followed public sector guidance for Government agencies.

Notes to the financial statements

2 Formation of Northern Ireland Water Limited (continued)

The following table illustrates the introduction of these additional liabilities.

Net assets contributed by DRD at 1 April 2007

	Book Value £'000	Adjustments £'000	Fair Value £'000
Fixed assets			
Tangible Assets (1)	873,278	16,556	889,834
Investments	107	-	107
	873,385	**16,556**	**889,941**
Current assets			
Stocks and work in progress	2,409	-	2,409
Debtors: amounts falling due within one year	33,399	-	33,399
Cash at bank and in hand	46	-	46
Total current assets	**35,854**	**-**	**35,854**
Creditors: amounts falling due within one year	(72,037)	-	(72,037)
Net current liabilities	**(36,183)**	**-**	**(36,183)**
Total assets less current liabilities	**837,202**	**16,556**	**853,758**
Creditors: amounts falling due after more than one year	(4,597)	-	(4,597)
Provision for liabilities and charges	(10,915)	-	(10,915)
Pension provisions (2)	-	(7,519)	(7,519)
Deferred income (3)	-	(9,037)	(9,037)
Total net assets	**821,690**	**-**	**821,690**
Satisfied by:			
Issue of loan notes (4)			150,000
Statutory distributable reserves (5)			171,690
Issue of Share Capital (6)			500,000
Total Consideration			**821,690**

Notes to the financial statements

2 Formation of Northern Ireland Water Limited (continued)

The value of the business transferred from NIWS to NI Water was based on a discounted cash-flow model that valued the business at £800m. This value was uplifted by £21.69m to £821.69m to take account of the market value of surplus assets that would not be expected to generate cash flows in the future but would be available for potential disposal by the business at market value. A fair value exercise was then carried out on all assets and liabilities with the value of fixed assets being calculated as the 'balancing figure' to arrive at the valuation of £821.69m. Due to uncertainties relating to the pension asset/liability, the "balancing figure" is based on the current information available and consequently this may change once the transfer exercise has been completed.

During the transfer a number of additional liabilities were introduced into the business as the accounting basis for the new entity would be UK GAAP as opposed to the Government accounting principles applied to NIWS financial statements. These liabilities had the effect of adjusting the fixed assets figure upwards by £16.6m since the discounted cash flows had already accounted for these liabilities and therefore the value of the business was deemed to be maintained at £821.69m.

(1) Fixed assets adjusted as 'balancing figure' to reflect new liabilities and maintain pre-determined valuation.

(2) A liability of £10.7m (£7.5m net of deferred tax asset) has been introduced to recognise a potential pension liability under FRS 17 "Retirement Benefits" (see note 26 Pension Schemes). NIWS employees participated in the Principal Civil Service Pension Scheme ("PCSPS") and under government accounting rules NIWS was exempt from complying with FRS 17 and no liability was recognised.

(3) In accordance with accounting principles NIWS maintained a government grant reserve for all fixed assets where grants had been received. Under UK GAAP, the requirements of SSAP4-"Accounting for Government Grants" will be applicable. NIWS showed grants under government accounting as part of net funding in a government grant reserve and this reserve was amortised over time. In order for the Company to comply with its stated accounting policies (see 1d) it was necessary to establish a deferred income account for non-infrastructure assets only at a value of £9.04m with a corresponding adjustment to fixed assets to maintain the agreed valuation of the Company.

(4) DRD initial loan issued under the £1.28 billion fixed coupon unsecured loan notes 2027 instrument dated 1 April 2007 (see note 18).

(5) A Statutory distributable reserve of £171.7m was established at 1 April 2007 as permitted under Water and Sewerage Services (Northern Ireland) Order 2006 (see note 22).

(6) Share capital of £500m was issued (see note 21).

3 Segmental analysis

The Directors believe that the whole of the Company's activities constitute a single class of business.

The Company's turnover is principally generated from within the United Kingdom.

Notes to the financial statements

4 Operating Costs

	2007/08 £'000	2006/07 £'000
Raw materials and consumables	**14,720**	-
Other operating costs*	**119,017**	-
Staff Costs (notes 6 and 7)	**63,296**	-
Own work capitalised (note 7)	**(10,907)**	-
Loss on sale of fixed assets	**31**	-
Depreciation and other amounts written off tangible assets	**48,027**	-
Amortisation of deferred grants and contributions	**(353)**	-
Total operating costs	**233,831**	-
*Other operating costs comprise:		
Power	**21,900**	-
Rates	**11,688**	-
Hired and contracted services	**63,864**	-
Other operating costs	**21,565**	-
Total other operating costs	**119,017**	-

5 Operating Profit

	2007/08 £'000	2006/07 £'000
Profit on ordinary activities before taxation is stated after charging		
Hire of other assets - operating leases	**50**	-
Auditors' remuneration:		
Audit of these financial statements	**75**	-
Audit of Regulatory Accounts	**24**	-
	99	-
Amounts receivable by the Auditors and their associates in respect of:		
Other services relating to taxation	**60**	-
Accounting and regulatory advice	**30**	-
	90	-
Total fees payable to the Auditors	**189**	-

Notes to the financial statements

6 Remuneration of Directors

	2007/08 £'000	2006/07 £'000
Directors' emoluments	**502**	-

6a Directors' emoluments

The Directors who served on the Board during the financial year are shown in the remuneration report. Directors' emoluments comprising gross salary, bonuses, pension contributions, allowances and non executive Directors' fees can be summarised into the following monetary bands:

	2007/08 £'000	2006/07 £'000
Katharine Bryan* (Chief Executive - resigned 31 May 2008)	**154**	-
Phil Barker*	**114**	-
Ronan Larkin*	**102**	-
Chris Mellor** (Chairman)	**73**	-
John Ballard**	**29**	-
Ruth Thompson**	**25**	-
Rose Hynes** (resigned 19 July 2007)	**5**	-

**Executive Director   ** Non executive Director*

6b Directors' pension entitlement

Set out below are details of the pension benefits to which each of the executive Directors is entitled as members of the Company's defined benefit scheme.

	Accrued pension at age 60 as at 31 March 2008 £'000	Related lump sum as at 31 March 2008 £'000	Real increase in pension at age 60 £'000	Real increase in lump sum at age 60 £'000
Katharine Bryan (Chief Executive - resigned 31 May 2008)	**3**	**-**	3	-
Phil Barker	**2**	**-**	2	-
Ronan Larkin	**2**	**-**	2	-

	CETV at 31 March 2008 £'000	CETV at 31 March 2007 £'000	Real increase in CETV less Director's contribution £'000	Director's contribution £'000
Katharine Bryan (Chief Executive - resigned 31 May 2008)	**51**	-	46	5
Phil Barker	**24**	-	20	4
Ronan Larkin	**23**	-	19	4

Notes to the financial statements

6 Remuneration of Directors (continued)

The accrued pension and lump sum is the amount that the 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 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.

The Directors, in common with all other Company employees who transferred from NIWS, are currently involved in a transfer exercise and may decide to transfer their accrued benefit in the PCSPS(NI) to the Company's scheme. The figures above do not include this potential transfer value as this exercise is not expected to be completed until September 2008.

7 Staff numbers and costs

	Number of Employees	
	2007/08	2006/07
The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:		
Executive Directors	**3**	-
Non industrial staff	**796**	-
Industrial staff	**874**	-
	1,673	-

	2007/08 £'000	2006/07 £'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	**45,528**	-
Social security costs	**3,280**	-
Other pension costs	**14,488**	-
	63,296	-

An amount of £6,241k of the above payroll costs has been capitalised as it relates to work carried out by the Company that adds to the value of fixed assets.

8 Other interest receivable and similar income

	2007/08 £'000	2006/07 £'000
Bank interest	**2,236**	-

9 Other finance income

	2007/08 £'000	2006/07 £'000
Expected return on pension scheme assets	**6,402**	-
Interest on pension scheme liabilities	**(5,982)**	-
	420	-

Notes to the financial statements

10 Interest payable and similar charges

	2007/08 £'000	2006/07 £'000
On bank loans and overdrafts	**29**	-
On all other loans	**9,712**	-
	9,741	-

Of the above amount, £9,712k was payable to DRD in relation to loan notes issued (see note 18 'Loans, other borrowings and financial instruments' and note 29 'Related party disclosures').

11 Taxation

Analysis of charge in period	2007/08 £'000	2006/07 £'000
Deferred tax		
Origination/reversal of timing differences	**17,957**	-
FRS 17 pension adjustments	**(848)**	-
Effect of change in tax rate	**(1,353)**	-
Total deferred tax charge	**15,756**	-
Tax charge on profit on ordinary activities	**15,756**	-

Factors affecting the tax charge for the current period

The current tax charge for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2007/08 £'000	2006/07 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	**56,801**	-
Current tax at 30%	**17,040**	-
Effects of:		
Expenses not deductible for tax purposes	**69**	-
Capital allowances for period in excess of depreciation	**(18,286)**	-
Other timing differences	**848**	-
Trade losses carried forward	**329**	-
Total current tax charge	**-**	-

Factors that may affect future current and total tax charges

The standard rate of Corporation Tax in the UK changes to 28% with effect from 1 April 2008. The Company's current tax charge will be affected in future years by the requirements of the Northern Ireland Asset Management Plan. Based on current capital investment plans, the Company expects to continue to claim capital allowances in excess of depreciation in future years.

12 Dividends

	2007/08 £'000	2006/07 £'000
The aggregate amount of dividends comprises:		
Dividends in respect of the year recognised as a liability at the year end (dividend - 6.79 pence per allotted share).	**33,956**	-
	33,956	-

The aggregate amount of dividends declared and approved and recognised as liabilities as at the year end is £33,956k.

13 Tangible fixed assets

	Land and Buildings £'000	Infrastructure assets £'000	Operational assets* £'000	Vehicle plant and equipment £'000	Assets in course of construction £'000	**Total £'000**
Cost						
Aquisitions	67,050	614,865	137,449	9,317	61,153	**889,834**
Additions	-	6,156	-	-	246,614	**252,770**
Disposals	(203)	-	(4)	(210)	(73)	**(490)**
Transfers	3,599	16,234	46,863	140	(66,836)	**-**
At 31 March 2008	70,446	637,255	184,308	9,247	240,858	**1,142,114**
Depreciation						
Charge for year	(655)	(35,668)	(9,386)	(2,318)	-	**(48,027)**
On disposals	-	-	-	7	-	**7**
At 31 March 2008	(655)	(35,668)	(9,386)	(2,311)	-	**(48,020)**
Net Book Value						
At 31 March 2008	**69,791**	**601,587**	**174,922**	**6,936**	**240,858**	**1,094,094**
At 31 March 2007	-	-	-	-	-	**-**

Included in the total net book value of assets in course of construction is £1,831k in respect of the residual interest assets in Private Finance Initiative contracts (see note 25). These assets are not depreciated.

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

	2007/08 £'000	2006/07 £'000
The net book value of land and buildings comprises:		
Freehold	**69,093**	-
Leasehold - long and short term	**698**	-
Total	**69,791**	-

Notes to the financial statements

14 Fixed asset investments

	2007/08 £'000	2006/07 £'000
8% unsecured loan stock (15,278 units at £1 each)	**15**	-
Ordinary 'A' shares (15,278 at £1 each)	**91**	-
	106	-

Note: The shares and loan stock relate to an investment in WRc PLC. These were acquired on 1 April 2001 by NIWS and transferred to the Company as part of the net assets acquired. WRc carries out research in the water, waste and environment sectors.

The current market value is £6.72 per ordinary share. The loan stock is unlisted.

15 Stocks

	2007/08 £'000	2006/07 £'000
Raw materials and consumables	**2,269**	-
Work in progress	**136**	-
	2,405	-

16 Debtors

	2007/08 £'000	2006/07 £'000
Trade debtors	**5,674**	-
Other debtors	**2,300**	-
VAT receivable	**15,136**	-
Accrued income	**7,528**	-
Prepayments	**77**	-
	30,715	-

17 Creditors: amounts falling due within one year

	2007/08 £'000	2006/07 £'000
Payments received on account	**1,717**	-
Trade creditors	**26,750**	-
Taxation and social security	**118**	-
Other creditors	**1,981**	-
Accruals and deferred income	**80,049**	-
Dividend payable	**33,956**	-
Deferred grants and contributions	**383**	-
	144,954	-

18 Loans, other borrowings and financial instruments

	2007/08 £'000	2006/07 £'000
Capital Loan Notes	307,560	-
	307,560	-
Borrowings are repayable as follows:		
In one year or less or on demand	-	-
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	-
In more than five years	307,560	-
	307,560	-

The Capital loan notes (denominated in Sterling) have been issued under the Instrument constituting £1,280,200,000 Fixed Coupon Unsecured loan notes 2027. Capital loan notes are issued to the DRD and are repayable in full in 2027. All loan notes in issue and all further loan notes issued before 31 March 2010 carry a fixed rate of interest of 5.25%. Any loan notes issued after 31 March 2010 will 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.

Borrowing Facilities

The Company also has committed borrowings facilities available which were fully undrawn at the year end. They comprised a £20m Working Capital facility and a £55m Revolving Credit Facility.

The Working Capital facility is provided by DRD for the period to 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%.

The Revolving Credit facility is 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%.

19 Creditors: amounts falling due after more than one year

	2007/08 £'000	2006/07 £'000
Other creditors	**3,422**	-
Deferred grants and contributions	**9,376**	-
	12,798	-

Other creditors relates to retentions from capital projects all of which will fall due within two to five years. The deferred grants and contributions will be amortised as follows:

	2007/08 £'000	2006/07 £'000
Within one year	**-**	-
Within the second to fifth years	**1,532**	-
Over five years	**7,844**	-
	9,376	-

Notes to the financial statements

20 Provisions for liabilities

	Public liability claims £'000	Employer liability claims £'000	Environmental liability £'000	Early Retirement Provisions £'000	Deferred Tax £'000	Other Provisions £'000	**Total £'000**
Acquistions	1,935	1,353	6,700	847	-	80	**10,915**
(Charge)/credit to the profit and loss	-	-	-	(191)	16,760	-	**16,569**
Additional provisions	3,749	-	803	21	-	170	**4,743**
Unwinding of discounted amount	-	-	-	16	-	-	**16**
Amounts released unused	-	(317)	-	-	-	(35)	**(352)**
At 31 March 2008	**5,684**	**1,036**	**7,503**	**693**	**16,760**	**215**	**31,891**

The Public liability and Employer liability claims at 31 March 2008 relate to unsettled claims. The public liability claims principally relate to water treatment incidents and contractors' business interruption incidents in prior years and whilst the claims submitted against the Company are in excess of the provisions made, the year end provisions represent management's best estimates.
The environmental provision was calculated after carrying out an Environmental Risk and Liability Assessment of the Company's service sites.
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 2008 to their official date of retirement, discounted to present value.

It has been estimated that payments against the above provisions will be as follows:

	Public liability Claims £'000	Employer liability Claims £'000	Environmental liability £'000	Early Retirement Provisions £'000	Deferred Tax* £'000	Other Provisions £'000	**Total £'000**
Within one year	1,680	407	3,752	187	-	130	**6,156**
In the second to fifth years	4,004	592	3,751	466	16,760	85	**25,658**
Over five years	-	37	-	40	-	-	**77**
	5,684	**1,036**	**7,503**	**693**	**16,760**	**215**	**31,891**

**The deferred tax will not be payable, however, it is expected that the Company will be in a Corporation Tax payment position in the period indicated.*

Notes to the financial statements

20 Provisions for liabilities (continued)

The elements of deferred taxation are as follows:

	2007/08 £'000	2006/07 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**17,067**	-
Other timing differences	**(307)**	-
Deferred tax liability	**16,760**	-

Deferred tax and FRS17

FRS17 pension deferred tax impact can be shown as follows (see also note 26)

	Excluding FRS17 £'000	FRS17 £'000	**Total £'000**
Opening liability	-	(3,223)	**(3,223)**
Current year deferred tax charge/(credit) to profit and loss account	17,957	(848)	**17,109**
Current year deferred tax (credit) to profit and loss account (effect of change of tax rate)	(1,197)	(156)	**(1,353)**
Current year deferred year tax charge to the Statement of Total Recognised Gains and Losses	-	6,412	**6,412**
Closing liability	16,760	2,185	**18,945**

21 Called up share capital

	2007/08 £'000	2006/07 £'000
Authorised		
500m Ordinary shares of £1 each (100 £1 ordinary shares authorised in 2007)	**500,000**	-
	500,000	-
Allotted, called up and fully paid		
500m Ordinary shares of £1 each (1 £1 ordinary share allotted in 2007)	**500,000**	-
Shares classified in Shareholder's funds	**500,000**	-

By written resolution of the Company dated 31 March 2007 the authorised share capital of the Company was increased from 100 ordinary shares of £1 to 500m ordinary shares of £1. This was carried out to permit an increase in the allotted shares to take place on 1 April 2007 increasing the allotted shares from 1 ordinary share at £1 to 500m ordinary shares at £1.

Notes to the financial statements

22 Reserves

	2007/08		2006/07	
	Statutory* distributable reserve £'000	**Profit and loss account £'000**	Distributable reserve £'000	Profit and loss account £'000
At beginning of year	**-**	**-**	-	-
Profit for the year	**-**	**41,045**	-	-
Dividends on shares classified as Shareholder's funds	**-**	**(33,956)**	-	-
Statutory distributable reserve	**171,690***	**-**	-	-
Actuarial gain recognised in the pension scheme	**-**	**21,374**	-	-
Deferred tax arising on gains in the pension scheme	**-**	**(6,412)**	-	-
At end of year	**171,690**	**22,051**	-	-

*£171.69m distributable reserve established under enabling legislation.

	2007/08 £'000	2006/07 £'000
The profit and loss account reserve can be analysed into the following components based on a review of contributions to the pension scheme since the beginning of the 2007/08 financial year:		
Other elements	**16,791**	-
Relating to deferred benefit asset	**5,260**	-
Profit and loss reserve including pension asset	**22,051**	-

23 Contingent liabilities and contingent assets

Contingent Liabilities

The Company is disputing liability in public liability cases arising from Water Service through Central Claims unit. The estimate of the financial effect is £316,638. 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.

The Company is also disputing liability in employer's liability cases arising from Water Service through Central Claims unit. The estimate of the financial effect is £862,670. 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.

The Company is also disputing liability in relation to flooding. The estimate of the financial effect is £35,000. 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.

Notes to the financial statements

23 Contingent liabilities and contingent assets (continued)

A Summary of Contingent liabilities is set out below.

	Year ended 31 March 2008 £
Public liability	316,638
Employer liability	862,670
Flooding claims unlikely to succeed	35,000
	1,214,308

Contingent Assets

The Company received a number of cash performance bonds from customers in relation to requisition of water mains and sewerage services. These balances are included in creditors (see note 17).

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 Company has received letters of credit in relation to the contract for customer billing and mobile work management. These are not recognised in the financial statements.

These items are not disclosed as 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 or letters of credit are likely to be presented to the issuing party in respect of non-performance by the customer or supplier.

24 Commitments

(a) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2007/08 £'000	2006/07 £'000
Contracted	**188,869**	-

(b) In addition to the above at the end of the financial year the Company had entered into commitments amounting to £22,716,000 (2007: £nil)

(c) Annual commitments under non-cancellable operating leases are as follows:

	2007/08 Other £'000	2006/07 Other £'000
Operating leases which expire:		
Within one year	**-**	-
In the second to fifth years inclusive	**49**	-
Over five years	**-**	-
	49	-

Notes to the financial statements

25 Private Finance Initiative commitments

The Company has accounted for Private Finance Initiative ("PFI") transactions in line with Accounting Policies note 1f.

Off-Balance Sheet

Kinnegar

A contract with Coastal Clearwater Ltd. was signed on 30 April 1999 for the provision of sewerage treatment which covered the upgrading of the Kinnegar Wastewater 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 PFI property involved is not an asset of the Company but the assets will revert to the Company at the end of the contract and to account for this the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year.

In 2007/08 an amount of £221k was credited to the profit and loss account for the year. These transactions gave a residual interest asset of £1,528k in Kinnegar at year end. This asset has been included in Fixed Assets (see note 13).

Omega

A contract with Glen Water Ltd. was signed on 6 March 2007 for the provision of sewerage treatment and sludge disposal at five sites with a capital cost in the region of £122 million. The contract is for 25 years with an end date of 5 March 2032.

The PFI property involved is not an asset of the Company but since the assets will revert to the Company at the end of the contract part of the unitary charge has been capitalised as a residual interest asset.

In 2007/08 an amount of £303k was credited to the profit and loss for the year. This asset has been included in Fixed Assets (see note 13) at a value of £303k.

Silent Valley / Ben Crom

A smaller PFI contract was signed on 29 June 1999 with Highland, Light and Power Northern Ireland Limited to facilitate the generation of hydro electricity at Silent Valley/Ben Crom Reservoirs. The contract period is for nine years and the estimated capital value is £840,000. There are no annual payments under this contract.

Charge to the profit and loss account and future commitments

In 2007/08 the charge to the profit and loss account in respect of Kinnegar was £1,692,660. The unitary payment was £1,913,256 with £220,596 capitalised in relation to the residual interest asset. The future estimated annual amount payable under the Kinnegar off-balance sheet PFI agreement is £2,220k.

In 2007/08 £1,179,000 was accrued in respect of Omega. The unitary payment accrued was £1,482,000 with £303,000 capitalised in relation to the residual interest asset. The future estimated first full year (2009/10) annual amount payable under the Omega off-balance sheet PFI agreement is £19,692k.

The future estimated total annual amount payable under off-balance sheet PFI agreements is £21,912k. These payments are subject to performance, volume and quality targets being met, which lead to fluctuations in the amount payable. Payments to which the Company is committed during 2008/09, analysed by the period during which the commitment expires are as follows:

	2007/08 £'000
Expiry within 1 year	-
Expiry within 2 to 5 years	-
Expiry within 6 to 10 years	-
Expiry within 11 to 15 years	-
Expiry within 16 to 20 years	**2,220**
Expiry within 21 to 25 years	**8,121**

25 Private Finance Initiative commitments (continued)

On-Balance Sheet

Alpha

A contract with Dalriada Water Ltd. was signed on 30 May 2006 for the provision of bulk drinking water supplies. This has a capital cost in the region of £110 million. The service provision will roll-out from May to August 2008. The contract is for 25 years with an end date of 29 May 2031.

Charge to the profit and loss and future commitments

There are no amounts charged to the profit and loss account in respect of the service element of on-balance sheet PPP transactions in 2007/08.

The Alpha unitary payments will commence during 2008/09 at a level of £11,419k.

The future estimated first full year (2009/10) annual amount payable under the Alpha on-balance sheet PFI agreement is £16,920k. These payments are subject to performance, volume and quality targets being met, which lead to fluctuations in the amount payable.

26 Pension scheme

Defined benefit pension scheme

The Company operates a final salary pension scheme, the NI Water Limited Pension Scheme, which is open to all employees. Members have the option of transferring their pensionable service from the Principal Civil Service Pension Scheme (Northern Ireland) ("PCSPS(NI)") and a bulk transfer will be paid in respect of liabilities transferred. The members are due to select their option in the next financial year. Independent actuaries have provided figures that illustrate the effect of the potential obligation to take on members' PCSPS(NI) accrued rights, and the bulk transfer due from the PCSPS(NI), allowing for a member take-up rate of 50%. This take-up rate shows a potential opening deficit of £10.742m (£7.519m net of deferred tax asset) and this figure has been included in the liabilities taken on under the change of ownership from NIWS to NI Water (see note 2).

The transfer exercise is expected to be completed by September 2008.

An employer contribution rate of 29.3% of pensionable pay applied during the year. The Company expects to contribute approximately £11m to the Scheme in 2008/09 excluding any additional contributions arising to fund past service costs.

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 first full actuarial valuation is due to be carried out as at 1 April 2008 and as such, the results are not available yet. Mortality assumptions used for the FRS 17 disclosures imply current life expectancies at age 60 (in years) are 26.8 for a male currently aged 60 and 27.9 for a male currently aged 40. The current life expectancies at age 60 (in years) are 29.7 years for a female currently aged 60 and 30.7 for a female currently aged 40.

Major assumptions used by the actuary in this disclosure:

	Conditions at 31 March 2008	Conditions at 31 March 2007
Rate of increase in salaries	**5.0%**	4.5%
Rate of increase in pensions in payment and deferred pensions	**3.5%**	3.0%
Discount rate	**6.0%**	5.0%
Inflation assumption	**3.5%**	3.0%
Bulk transfer take-up	**50.0%**	50.0%

Notes to the financial statements

26 Pension scheme (continued)

Scheme assets and liabilities:

	Scheme at 31 March 2008 £'000	Estimated bulk transfer at 31 March 2008 £'000	**Total at 31 March 2008 £'000**	Total at 31 March 2007 £'000
Equities	5,424	-	**5,424**	-
Bonds	5,424	-	**5,424**	-
Bulk transfer	-	118,896	**118,896**	103,658
Total market value of assets	10,848	118,896	**129,744**	103,658
Actuarial value of liabilities	(13,300)	(108,640)	**(121,940)**	(114,400)
Surplus/(deficit) in the scheme - pension asset/(liability)	(2,452)	10,256	**7,804**	(10,742)
Related deferred tax asset/(liability)	686	(2,871)	**(2,185)**	3,223
Net pension asset/(liability)	(1,766)	7,385	**5,619**	(7,519)

Expected rates of return on the assets in the scheme:

	Scheme conditions at 31 March 2008	Estimated bulk transfer conditions at 31 March 2008	**Conditions at 31 March 2008**	Conditions at 31 March 2007
Equities	7.50%	N/A	**7.50%**	7.75%
Bonds	5.00%	N/A	**5.00%**	5.00%
Bulk transfer	N/A	5.92%	**5.92%**	5.84%

Notes to the financial statements

26 Pension scheme (continued)

Changes in the fair value of plan assets

	Scheme year to 31 March 2008 £'000	Estimated bulk transfer year to 31 March 2008 £'000	**Total year to 31 March 2008 £'000**
At the beginning of the year	-	103,658	**103,658**
Movement in year			
Expected return on assets	352	6,050	**6,402**
Contributions by plan participants	653	-	**653**
Contributions by employer	11,240	-	**11,240**
Actuarial gain/(loss)	(537)	9,188	**8,651**
Benefits paid	(860)	-	**(860)**
	10,848	118,896	**129,744**

Analysis of the present value of the defined benefit obligations

	Scheme year to 31 March 2008 £'000	Estimated bulk transfer year to 31 March 2008 £'000	**Total year to 31 March 2008 £'000**
At the beginning of the year	-	114,400	**114,400**
Movement in year			
Current service cost	10,688	-	**10,688**
Interest on scheme liabilities	262	5,720	**5,982**
Past service costs	3,800	-	**3,800**
Actuarial gain	(1,243)	(11,480)	**(12,723)**
Contributions by plan participants	653	-	**653**
Benefits paid	(860)	-	**(860)**
Surplus in scheme at end of year	13,300	108,640	**121,940**

Analysis of other pension costs charged in arriving at operating profit

	Scheme year to 31 March 2008 £'000	Estimated bulk transfer year to 31 March 2008 £'000	**Total year to 31 March 2008 £'000**
Current service cost	10,688	-	**10,688**
Past service costs	3,800	-	**3,800**
Total operating charge	14,488	-	**14,488**

Notes to the financial statements

26 Pension scheme (continued)

Analysis of amounts included in other finance income

	New accrual year to 31 March 2008 £'000	Estimated bulk transfer year to 31 March 2008 £'000	**Total year to 31 March 2008 £'000**
Expected return on pension scheme assets	352	6,050	**6,402**
Interest on pension scheme liabilities	(262)	(5,720)	**(5,982)**
Other finance income	90	330	**420**

Analysis of amount recognised in statement of total recognised gains and losses

	Scheme year to 31 March 2008 £'000	Estimated bulk transfer year to 31 March 2008 £'000	**Total year to 31 March 2008 £'000**
Actual return less expected return on scheme assets	(537)	9,188	**8,651**
Experience gains and losses arising on scheme liabilities	(298)	331	**33**
Changes in assumptions underlying the present value of scheme liabilities	1,541	11,149	**12,690**
Actuarial gain recognised in statement of total recognised gains and losses	706	20,668	**21,374**
Cumulative amount of actuarial gains immediately recognised	706	20,668	**21,374**

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. This resulted in selection of an overall expected return on assets of 5.94% (2007: 5.84%).

	Scheme year to 31 March 2008 £'000	Estimated bulk transfer year to 31 March 2008 £'000	**Total year to 31 March 2008 £'000**
Actual return on plan assets	(185)	15,238	**15,053**

Notes to the financial statements

26 Pension scheme (continued)

History of experience gains and losses

	2007/08 £'000
Benefit obligation at end of year	**(121,940)**
Fair value of plan assets at end of year	**129,744**
Surplus	**7,804**
Difference between the expected and actual return on scheme assets:	
Amount (£'000)	**8,651**
Percentage of scheme assets	**7%**
Experience gains and losses on scheme liabilities:	
Amount (£'000)	**33**
Percentage of scheme assets	**0%**
Total amount recognised in statement of total recognised gains and losses:	
Amount (£'000)	**21,374**
Percentage of scheme liabilities	**18%**

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 %	Change in liability £m
+ or - 0.5% in discount rate	**11%**	**13**
+ or - 0.5% in rate of inflation	**9%**	**11**
+ or - 0.5% in salary inflation	**4%**	**5**
Change in life expectancy of 1 year	**2%**	**2**

Bulk transfer take-up

Assumed take-up	0%	25%	40%	50%	60%	75%	100%
Net pension asset/(liability) £m	**(2)**	**3**	**6**	**8**	**10**	**13**	**18**

Notes to the financial statements

27 Analysis of cash flows

	2007/08 £'000	2006/07 £'000
Returns on investment and servicing of finance		
Interest received	**2,228**	-
Interest paid	**(9,613)**	-
Net cash outflow from returns on investments and servicing of finance	**(7,385)**	-
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(240,400)**	-
Grants and contributions received	**5,245**	-
Sale of plant and machinery	**379**	-
Net cash outflow for capital expenditure and financial investment	**(234,776)**	-
Management of liquid resources		
Increase in short-term deposits and investments	**(54,000)**	-
Net cash outflow from management of liquid resources	**(54,000)**	-
Financing		
Increase in loans	**157,560**	-
Net cash inflow from financing	**157,560**	-

28 Analysis of net debt

	Acquired with net assets £'000	Cash flow £'000	Other non cash changes £'000	**At end of year £'000**
Cash in hand and at bank	(757)	4,762	-	**4,005**
Deposits and investments	-	54,000	-	**54,000**
Debt due within one year	(757)	58,762	-	**58,005**
Debt due after one year	-	(157,560)	(150,000)*	**(307,560)**
Total	**(757)**	**(98,798)**	**(150,000)**	**(249,555)**

*DRD initial loan issued under the £1.28bn fixed coupon unsecured loan notes 2027 instrument dated 1 April 2007 (see notes 2 and 18).

Notes to the financial statements

29 Related party disclosures

The Company is a Government owned company and 100% owned by DRD.

The results of the Company will not be consolidated within the annual financial statements prepared by DRD nor in the financial statements of any other entity. Inter-Company debtor and creditor balances with DRD and other government bodies will be supplied to DRD for the whole of government accounts.

Related party disclosures with DRD are as follows:

	2007/08 £'000	2006/07 £'000
Revenue subsidy from DRD (credited to turnover)	**253,778**	-
Capital subsidy from DRD credited to fixed assets (infrastructure assets) or deferred contribution (non infrastructure assets)	**1,837**	-
Trade Debtors - subsidy (included in Trade Debtors note 16)	**694**	-
Other sales to DRD (credited to turnover)	**1,009**	-
Trade debtors - other sales to DRD (included in trade debtors note 16)	**137**	-
Loans from DRD (note 18)	**307,560**	-
Loan interest to DRD (note 10) - fully paid in year	**9,712**	-
Dividend payable to Shareholder (notes 12 and 17)	**33,956**	-
Payroll services provided by DRD (included in operating costs as per note 4 and accruals as per note 17)	**55**	-

Regulatory Accounts

Introduction

The Directors of Northern Ireland Water Limited 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 its obligations under the Appointment);

(2) in the opinion of the Directors, the Appointee will, for at least the next 12 months, have available to it:
  (i) management resources; and
  (ii) methods of planning and internal control which, except for any control weaknesses reported separately to NIAUR, 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

Chris Mellor
Chairman and Acting Chief Executive
3 July 2008

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") set out on pages 97 to 115 which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet; 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 cash flow statement and the related notes to the current cost financial statements including 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 of 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 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.

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Instrument of Appointment and the Regulatory Accounting Guidelines issued by the Water Services Regulation Authority, in so far as these are relevant to the regulatory environment in Northern Ireland, the accounting policies set out in the statement of accounting policies and in the case of regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of the Company as shown in financial statements prepared in accordance with the Companies (Northern Ireland) Order 1986.

Respective responsibilities of the NIAUR, the Directors and Auditors

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 assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of Directors' responsibilities for regulatory information on page 64.

Our responsibility is to audit the Regulatory Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland), except as stated in the "Basis of audit opinion", below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'.

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for the classification of expenditure), Regulatory Accounting Guideline 3.06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.03 (Guideline for the analysis of operating costs and assets);

and whether the regulatory current cost accounting statements on pages 101 to 105 have been properly prepared in accordance with Regulatory Accounting Guidelines. We also report to you if, in our opinion, the Company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the Appointees' accounting records and has been properly prepared with the requirements of Condition F and, as appropriate, Regulatory Accounting Guidelines.

We read the other information contained in the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the performance review, the notes on the regulatory information, and the additional information required by the Licence.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that both the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of 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 Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the Statutory financial statements of the Company on which we report, which are prepared for a different purpose. Our audit report in relation to the Statutory accounts of the Company (our "Statutory" audit) was made solely to the Company in accordance with the terms of our engagement letter in respect of that audit. Our Statutory audit work was undertaken that we might state to the Company those matters which are required to state to it in a Statutory Auditors' report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on pages 97 to 100 have been drawn up in accordance with Regulatory Accounting Guidelines 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 Principles, and a reconciliation to the balance sheet drawn up under the Companies (Northern Ireland) Order 1986 is given on page 100.

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2008 fairly present, in accordance with Condition F of the Instrument of Appointment granted by the Department for Regional Development of Northern Ireland Water Limited as a water and sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006, the Regulatory Accounting Guidelines issued by the NIAUR and the accounting policies set out on page 106, the state of the Company's affairs at 31 March 2008 on a historical cost and current cost basis, the historical cost and current cost profit for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

In respect of this information, we report that in our opinion:

a) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;

b) the information is in agreement with the Appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guidelines issued by the NIAUR;

c) the regulatory historical cost accounting statements on pages 97 to 100 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guidelines issued by the NIAUR; and

d) the regulatory current cost accounting statements on pages 101 to 115 have been properly prepared in accordance with Regulatory Accounting Guidelines issued by the NIAUR.

KPMG
Chartered Accountants, Belfast
3 July 2008

Historical cost financial statements

Profit and loss account for the year ended 31 March 2008

	2007/08			2006/07		
	Appointed business £'000	**Non-Appointed business £'000**	**Total £'000**	Appointed business £'000	Non-Appointed business £'000	Total £'000
Turnover	**294,056**	**3,661**	**297,717**	-	-	-
Operating costs	**(219,094)**	**(2,378)**	**(221,472)**	-	-	-
Historical cost depreciation	**(12,343)**	**(16)**	**(12,359)**	-	-	-
Operating profit	**62,619**	**1,267**	**63,886**	-	-	-
Net interest receivable / (payable)	**(7,113)**	**28**	**(7,085)**	-	-	-
Profit on ordinary activities before taxation	**55,506**	**1,295**	**56,801**	-	-	-
Taxation on profit on ordinary activities:						
Deferred tax	**(15,562)**	**(194)**	**(15,756)**	-	-	-
Profit on ordinary activities after taxation	**39,944**	**1,101**	**41,045**	-	-	-
Dividends	**(33,538)**	**(418)**	**(33,956)**	-	-	-
Retained profit for the financial year	**6,406**	**683**	**7,089**	-	-	-

Balance sheet at 31 March 2008

	2007/08			2006/07		
	Appointed business £'000	Non-Appointed business £'000	Total £'000	Appointed business £'000	Non-Appointed business £'000	Total £'000
Fixed assets						
Tangible assets	1,103,597	192	1,103,789	-	-	-
Investments	106	-	106	-	-	-
	1,103,703	192	1,103,895	-	-	-
Current assets						
Stocks	2,400	5	2,405	-	-	-
Debtors	30,570	145	30,715	-	-	-
Cash at bank and in hand	56,844	1,161	58,005	-	-	-
	89,814	1,311	91,125	-	-	-
Creditors: amounts falling due within one year						
Payments received on account	(1,717)	-	(1,717)	-	-	-
Trade creditors	(26,515)	(235)	(26,750)	-	-	-
Taxation and social security	(118)	-	(118)	-	-	-
Other creditors	(1,981)	-	(1,981)	-	-	-
Accruals and deferred income	(80,077)	28	(80,049)	-	-	-
Dividends payable	(33,538)	(418)	(33,956)	-	-	-
Deferred grants and contributions	(383)	-	(383)	-	-	-
Infrastructure renewals accrual	(9,695)	-	(9,695)	-	-	-
	(154,024)	(625)	(154,649)	-	-	-
Net current assets / (liabilities)	(64,210)	686	(63,524)	-	-	-
Total assets less current liabilities	1,039,493	878	1,040,371	-	-	-
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(307,560)	-	(307,560)	-	-	-
Other creditors	(12,798)	-	(12,798)	-	-	-
	(320,358)	-	(320,358)	-	-	-

Balance sheet at 31 March 2008 - continued

	2007/08			2006/07		
	Appointed business £'000	**Non-Appointed business £'000**	**Total £'000**	Appointed business £'000	Non-Appointed business £'000	Total £'000
Provisions for liabilities and charges						
Deferred tax provision	**(16,566)**	**(194)**	**(16,760)**	-	-	-
Other provisions	**(15,131)**	**-**	**(15,131)**	-	-	-
	(31,697)	**(194)**	**(31,891)**	-	-	-
Pension asset	**5,619**	**-**	**5,619**	-	-	-
Net assets	**693,057**	**684**	**693,741**	-	-	-
Capital and reserves						
Called up share capital	**500,000**	**-**	**500,000**	-	-	-
Statutory distributable reserves	**171,690**	**-**	**171,690**	-	-	-
Profit and loss account	**21,367**	**684**	**22,051**	-	-	-
Shareholder's funds	**693,057**	**684**	**693,741**	-	-	-

These financial statements were approved by the Board of Directors on 3 July 2008 and were signed on its behalf by:

Chris Mellor
Chairman and Acting Chief Executive
3 July 2008

Statement of total recognised gains and losses

for the year ended 31 March 2008

	2007/08			2006/07		
	Appointed business £'000	**Non-Appointed business £'000**	**Total £'000**	Appointed business £'000	Non-Appointed business £'000	Total £'000
Profit for the financial year	**39,944**	**1,101**	**41,045**	-	-	-
Actuarial gain recognised in the pension scheme	**21,374**	**-**	**21,374**	-	-	-
Deferred tax arising on gains in the pension scheme	**(6,412)**	**-**	**(6,412)**	-	-	-
Total recognised gains and losses relating to the financial year	**54,906**	**1,101**	**56,007**	-	-	-

Reconciliation between Statutory accounts and historic cost regulatory accounts

for the year ended 31 March 2008

	Statutory accounts £'000	**Regulatory accounts £'000**	Explanation
Profit and loss account			
Operating profit	63,886	63,886	No difference
Profit before tax	56,801	56,801	No difference
Balance sheet			
Tangible fixed assets (Net Book Value)	1,094,094	1,103,789	The difference of £9,695k is attributable to the infrastructure renewals accrual as this is added to the fixed assets net book value in the regulatory accounts. This is in line with Regulatory Accounting Guideline 3.06 as FRS 15 is not applied for infrastructure renewals accounting for regulatory accounting purposes.

Current cost financial statements

Profit and loss account for Appointed business

for the year ended 31 March 2008

	Note	2007/08 £'000	2006/07 £'000
Turnover	3	**294,056**	-
Current cost operating costs	4	**(278,250)**	-
Current cost loss on disposal of fixed assets	3	**(56)**	-
Working capital adjustment	3, 8	**1,327**	-
Current cost operating profit		**17,077**	-
Net interest (payable)		**(7,114)**	-
Financing adjustment	8	**6,543**	-
Current cost profit before taxation		**16,506**	-
Taxation on profit on ordinary activities:			
Deferred tax		**(15,562)**	-
Current cost profit attributable to Shareholder		**944**	-
Dividends		**(33,538)**	-
Current cost loss retained	7	**(32,594)**	-

Balance sheet for appointed business at 31 March 2008

	Note	2007/08 £'000	2006/07 £'000
Fixed assets			
Tangible assets	5	**6,689,434**	-
Third party contributions		**(91,813)**	-
		6,597,621	-
Operating assets and liabilities			
Working capital	6	**(77,318)**	-
Cash	9	**2,844**	-
Short term deposits	9	**54,000**	-
Infrastructure renewals accrual		**(9,695)**	-
Net operating liabilities		**(30,169)**	-
Non operating assets and liabilities			
Non trade debtors		**1,490**	-
Non trade creditors due within one year		**(1,610)**	-
Investments		**106**	-
Dividends payable		**(33,538)**	-
Total non operating liabilities		**(33,552)**	-
Creditors: amounts falling due after more than one year			
Borrowings	9	**(307,560)**	-
Other creditors		**(3,422)**	-
		(310,982)	-

Balance sheet for appointed business at 31 March 2008 (continued)

	Note	2007/08 £'000	2006/07 £'000
Provisions for liabilities and charges			
Deferred tax provision		**(16,566)**	-
Other provisions		**(15,131)**	-
		(31,697)	-
Pension asset		**5,619**	-
Net assets		**6,196,840**	-
Capital and reserves			
Called up share capital		**500,000**	-
Statutory distributable reserves		**171,690**	-
Profit and loss account	7	**(17,632)**	-
Current cost reserves	8	**5,542,782**	-
Shareholder's funds		**6,196,840**	-

Reconciliation of movements in Shareholder's funds

for the year ended 31 March 2008

	2007/08 £'000
Profit for the financial year	**944**
Dividends on shares classified in Shareholder's funds	(33,538)
Retained loss	**(32,594)**
Other recognised gains and losses relating to the year - pension scheme (net)	14,962
Profit and loss account	**(17,632)**
Issue of share capital	500,000
Distributable reserves arising under the Water and Sewerage Services (Northern Ireland) Order 2006	171,690
Increase in current cost reserves	5,542,782
Net addition to Shareholder's funds	**6,196,840**
Opening Shareholder's funds	-
Closing Shareholder's funds	**6,196,840**

Cash flow statement for the year ended 31 March 2008

	2007/08			2006/07		
	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)	**142,202**	**1,161**	**143,363**	-	-	-
Returns on investments and servicing of finance						
Interest received	**2,228**	**-**	**2,228**	-	-	-
Interest paid	**(9,613)**	**-**	**(9,613)**	-	-	-
Net cash outflow from returns on investment and servicing of finance	**(7,385)**	**-**	**(7,385)**	-	-	-
Capital expenditure and financial investment						
Purchase of tangible fixed assets	**(214,427)**	**-**	**(214,427)**	-	-	-
Grants and contributions received	**3,703**	**-**	**3,703**	-	-	-
Infrastructure renewals expenditure	**(24,431)**	**-**	**(24,431)**	-	-	-
Disposal of fixed assets	**379**	**-**	**379**	-	-	-
Net cash outflow from investing activities	**(234,776)**	**-**	**(234,776)**	-	-	-
Cash outflow before management of liquid resources and financing	**(99,959)**	**1,161**	**(98,798)**	-	-	-
Management of liquid resources	**(54,000)**	**-**	**(54,000)**	-	-	-
Cash outflow from management of liquid resources	**(54,000)**	**-**	**(54,000)**	-	-	-
Net cashflow before financing	**(153,959)**	**1,161**	**(152,798)**	-	-	-
Financing						
Loans advanced	**157,560**	**-**	**157,560**	-	-	-
Net cash inflow from financing	**157,560**	**-**	**157,560**	-	-	-
Net increase in cash	**3,601**	**1,161**	**4,762**	-	-	-

Notes to the regulatory accounts

1 Regulatory reporting

The Regulatory Accounts should be read in conjunction with the Operating and Financial Review ("OFR") on pages 4 to 64, for further understanding of the performance of the business.

Within the OFR, the Directors' report provides information on the Company's dividend policy on page 50 and on 'Disclosure of Information to Auditors' on page 53.

The Directors' remuneration report is set out on pages 61 to 63 and 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 of NI Water confirm that no amounts were given to charitable trusts assisting customers or similar funds in the year ended 31 March 2008.

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 Northern Ireland Authority for Utility Regulation ("NIAUR"). These requirements mirror those of 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 of the Water and Sewerage Undertaker and the Ofwat Regulatory Accounting Guidelines ("RAGs") adopted by NIAUR 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.

(b) General

The regulatory accounting policies are the same as those adopted in the Statutory financial statements on pages 70 to 72, except for those set out below.

(c) Tangible fixed assets and depreciation

The value of tangible fixed assets at 1 April 2007 included in the current cost accounts are based on the closing balances included in the Water Service's audited accounts at 31 March 2007 prior to the application of the impairment adjustment. The current cost values in Water Service were based on the asset management plan which reported at 1 September 2001 and which were 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 NIAUR, have been followed in the preparation of the current cost accounts.

NI Water plans to revalue its asset basis on a Modern Equivalent Asset Value ("MEAV") basis, in accordance with the RAGs, as part 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.

The infrastructure renewals charge ("IRC") is part of the renewals accounting approach and 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.

2 Accounting policies (continued)

The IRC for NI Water is based on the Company's assessment of the IRE over a 10 year period. This period comprises a five year historic analysis of IRE and a five year forecast of IRE. The historic analysis was undertaken by the predecessor organisation, NI Water Service, in 2001/02 and extrapolated over the remaining four years. The extrapolation was necessary as NI Water Service did not capture IRE for these years - it did not have to apply full renewals accounting principles as an unregulated entity. The IRE five year forecast is based on the Strategic Business Plan prepared in 2006/07.

As a consequence of the above the Directors consider that there remains a degree of uncertainty as to the appropriate quantum of the IRC and it is taking steps to provide a more robust medium to long term view of the maintenance needs of its infrastructure assets.

The IRE in 2007/08 is based on an analysis of capital expenditure on a project-by-project basis. This is the first year of full IRE reporting and the Directors are taking steps to address some uncertainties in the underlying systems used to allocate capital costs between IRE, infrastructure enhancement and maintenance non-infrastructure.

(d) Grants and other third party contributions

Grants, infrastructure and third party contributions include government grants, infrastructure charges, connection charges, requisitioning of watermains 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 (Northern Ireland) Order 1986.

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 (Northern Ireland) Order 1986 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. While a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income.

(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 the Retail Price Index ("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 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 cashflow statement.

Notes to the regulatory accounts

3 Analysis of turnover and operating income

	2007/08			2006/07		
	Water services £'000	**Sewerage services £'000**	**Total £'000**	Water services £'000	Sewerage services £'000	Total £'000
Turnover						
Unmeasured - household	104,560	99,245	**203,805**	-	-	-
Unmeasured - non household	-	-	**-**	-	-	-
Total unmeasured	**104,560**	**99,245**	**203,805**	-	-	-
Measured - household	-	-	**-**	-	-	-
Measured - non household	40,623	37,164	**77,787**	-	-	-
Total measured	**40,623**	**37,164**	**77,787**	-	-	-
Trade effluent	-	5,471	**5,471**	-	-	-
Large user and special agreements	5,863	-	**5,863**	-	-	-
Total trade effluent and large user special agreements	**5,863**	**5,471**	**11,334**	-	-	-
Rechargeable works	307	-	**307**	-	-	-
Other third party services	557	266	**823**	-	-	-
Total third party services	**864**	**266**	**1,130**	-	-	-
Total turnover	**151,910**	**142,146**	**294,056**	-	-	-

	2007/08			2006/07		
	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	**21**	**(77)**	**(56)**	-	-	-
Working capital adjustment	**1,327**	**-**	**1,327**	-	-	-

Notes to the regulatory accounts

4 Analysis of operating costs and tangible fixed assets

	2007/08							
	Water services			Sewerage				
	Resource and treatment £'000	Distribu-tion £'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	5,711	15,100	20,811	5,157	5,876	1,277	12,310	**33,121**
Power	6,939	2,245	9,184	4,540	6,506	1,621	12,667	**21,851**
Hired and contracted services	3,311	4,689	8,000	8,399	3,003	6,657	18,059	**26,059**
Materials and consumables	4,659	2,332	6,991	709	1,313	845	2,867	**9,858**
Other direct costs	715	167	882	290	434	181	905	**1,787**
Total direct costs	**21,335**	**24,533**	**45,868**	**19,095**	**17,132**	**10,581**	**46,808**	**92,676**
General and support expenditure	7,672	23,481	31,153	11,156	8,417	1,840	21,413	**52,566**
Total functional expenditure	**29,007**	**48,014**	**77,021**	**30,251**	**25,549**	**12,421**	**68,221**	**145,242**
Business activities								
Customer services			8,832				8,747	**17,579**
Scientific services			1,637				1,622	**3,259**
Cost of regulation			1,206				1,194	**2,400**
Rates			5,949				5,739	**11,688**
Doubtful debts			(544)				-	**(544)**
Total operating expenditure less third party services			**94,101**				**85,523**	**179,624**
Services for third parties			1,252				-	**1,252**
Total PPP unitary charge			-				2,872	**2,872**
Total operating expenditure			**95,353**				**88,395**	**183,748**
Capital costs								
Infrastructure renewals charge			27,277				8,391	**35,668**
Current cost depreciation:								
service activities	13,805	15,452	29,257	30,300	(181)	1,725	31,844	**61,101**
business activities			48				200	**248**
Amortisation of grants			(241)				(2,274)	**(2,515)**
Total capital costs			**56,341**				**38,161**	**94,502**
Total operating costs			**151,694**				**126,556**	**278,250**
Analysis of tangible fixed assets - MEAV*								
Service activities	696,822	2,587,889	3,284,711	2,356,133	1,003,916	44,674	3,404,723	6,689,434
Business activities			(954)				(1,846)	(2,800)
Total			**3,283,757**				**3,402,877**	**6,686,634**

**Modern Equivalent Asset Values ("MEAV") shown above are based on the valuation method described in note 2 (c) to the Regulatory Accounts.*

Notes to the regulatory accounts

4 Analysis of operating costs (continued)

The table on the previous page showing the analysis of operating costs has been prepared in accordance with Regulatory Accounting Guideline 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 e.g. customer services, scientific services and other, were collated using the relevant cost centre from the General Ledger. The total expenditure attributable to these activities were apportioned to water and sewerage on the basis of the directly coded spend.

Reactive and planned maintenance
Expenditure on reactive and planned maintenance included in operating costs for 2007/08 in respect of infrastructure assets amounted to £11.4m on water services and £7.7m for sewerage services.

Expenditure on reactive and planned maintenance included in operating costs for 2007/08 in respect of non-infrastructure assets amounted to £5.3m on water services and £11.4m for sewerage services.

5 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 2007	642,448	7,506	2,475,027	17,590	**3,142,571**
RPI and other adjustments	20,443	283	91,856	432	**113,014**
Disposals	(8)	-	-	(306)	**(314)**
Additions	9,886	-	43,597	5,259	**58,742**
At 31 March 2008	672,769	7,789	2,610,480	22,975	**3,314,013**
Depreciation					
At 1 April 2007	-	-	-	-	**-**
Disposals	-	-	-	3	**3**
Charge for year	(26,425)	(79)	-	(2,801)	**(29,305)**
At 31 March 2008	(26,425)	(79)	-	(2,798)	**(29,302)**
Net book value at 31 March 2008	**646,344**	**7,710**	**2,610,480**	**20,177**	**3,284,711**
Net book value at 1 April 2007	642,448	7,506	2,475,027	17,590	**3,142,571**

5 Analysis of tangible fixed assets by assets type (continued)

Sewerage Services	Specialised operational assets £'000	Non-specialised operational assets £'000	Infrastructure assets £'000	Other assets £'000	**Total £'000**
Gross replacement cost					
At 1 April 2007	813,529	9,708	2,286,163	28,307	**3,137,707**
RPI and other adjustments	21,760	366	84,092	871	**107,089**
Disposals	(1)	-	-	(116)	**(117)**
Additions	92,935	-	96,327	2,822	**192,084**
At 31 March 2008	928,223	10,074	2,466,582	31,884	**3,436,763**
Depreciation					
At 1 April 2007	-	-	-	-	**-**
Disposals	-	-	-	4	**4**
Charge for year	(29,524)	(105)	-	(2,415)	**(32,044)**
At 31 March 2008	(29,524)	(105)	-	(2,411)	**(32,040)**
Net book value at 31 March 2008	**898,699**	**9,969**	**2,466,582**	**29,473**	**3,404,723**
Net book value at 1 April 2007	813,529	9,708	2,286,163	28,307	**3,137,707**

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 2007	1,455,977	17,214	4,761,190	45,897	**6,280,278**
RPI and other adjustments	42,203	649	175,948	1,303	**220,103**
Disposals	(9)	-	-	(422)	**(431)**
Additions	102,821	-	139,924	8,081	**250,826**
At 31 March 2008	1,600,992	17,863	5,077,062	54,859	**6,750,776**
Depreciation					
At 1 April 2007	-	-	-	-	**-**
Disposals	-	-	-	7	**7**
Charge for year	(55,949)	(184)	-	(5,216)	**(61,349)**
At 31 March 2008	(55,949)	(184)	-	(5,209)	**(61,342)**
Net book value at 31 March 2008	**1,545,043**	**17,679**	**5,077,062**	**49,650**	**6,689,434**
Net book value at 1 April 2007	1,455,977	17,214	4,761,190	45,897	**6,280,278**

Notes to the regulatory accounts

5 Analysis of tangible fixed assets by assets type (continued)

In the preparation of its Statutory financial statements, the Company has followed common industry practice and adopted the infrastructure renewals accounting basis as required by FRS 15 Tangible fixed assets. However, for the purpose of the regulatory financial statements FRS 15 is not applied for infrastructure renewals accounting. A reconciliation to the tangible fixed assets shown in the Statutory financial statements is set out below:

	Infrastructure assets £'000
Cost	
At 31 March 2008 per regulatory financial statements	5,016,216
Less capital contributions	(24,028)
Adjustment to opening balance at 1 April 2007*	(4,380,806)
Infrastructure renewals expenditure capitalised in the year	25,873
At 31 March 2008 per Statutory financial statements	**637,255**
Depreciation	
At 31 March 2008 per regulatory financial statements	-
Depreciation charge for infrastructure renewals expenditure	(35,668)
At 31 March 2008 per Statutory financial statements	**(35,668)**
Net book value	
At 31 March 2008 per regulatory financial statements	5,016,216
Less capital contributions	(24,028)
Adjustment to opening balance at 1 April 2007*	(4,380,806)
Infrastructure renewals expenditure capitalised in the year	25,873
Depreciation charge for infrastructure renewals expenditure	(35,668)
At 31 March 2008 per Statutory financial statements	**601,587**
Infrastructure renewals accrual	
At 31 March 2008 per regulatory financial statements	9,695
Less infrastructure renewals accrual	(9,695)
At 31 March 2008 per Statutory financial statements	**-**

* This adjustment includes the impact of reporting the additions to infrastructure assets in 'Assets in course of construction' within the Statutory financial statements.

Notes to the regulatory accounts

6 Working capital

	2007/08 £'000
Stocks	**2,400**
Trade debtors	
Measured non-household	**4,459**
Other	**2,021**
Measured income accrual	**6,674**
Prepayments and other debtors	**15,926**
Trade creditors	**(26,515)**
Deferred income - customer advance receipts	**(1,717)**
Capital creditors and accruals	**(51,952)**
Accruals and other creditors	**(28,614)**
Total working capital	**(77,318)**

7 Profit and loss reserve

	2007/08 £'000
At 1 April 2007	-
Retained current cost profit/(loss) for year	(32,594)
FRS 17 actuarial gain	21,374
Deferred tax on actuarial gain	(6,412)
At 31 March 2008	**(17,632)**

8 Movement on current cost reserve

	2007/08 £'000	2006/07 £'000
At 1 April 2007	5,332,978	-
RPI adjustments:		
Fixed assets	220,162	5,390,652
Current cost on disposal of fixed assets	25	-
Working capital	(1,327)	-
Financing	(6,543)	-
Grants and third party contributions	(2,513)	(57,674)
At 31 March 2008	**5,542,782**	**5,332,978**

Notes to the regulatory accounts

9 Net debt analysis

	Fixed rate £'000	**Total £'000**
Maturity profile		
Less than one year	-	**-**
Between one and two years	-	**-**
Between two and five years	-	**-**
Between five and twenty years	(307,560)	**(307,560)**
More than twenty years	-	**-**
Total borrowings	(307,560)	**(307,560)**
Cash	2,844	**2,844**
Short term deposits	54,000	**54,000**
Net debt at 31 March 2008	(250,716)	**(250,716)**

10 Reconciliation of historical cost profit to current cost loss

	2007/08 £'000	2006/07 £'000
Historical cost profit per regulatory accounts	**7,089**	-
Less non appointed activities	**(683)**	-
Sub total historical cost profit on appointed activities	**6,406**	-
Less difference in loss on disposals	**(25)**	-
Add working capital adjustment	**1,327**	-
Add financing adjustment	**6,543**	-
Add historical cost depreciation including infrastructure renewals charge	**48,011**	-
Less current cost depreciation	**(61,349)**	-
Less infrastructure renewals charge	**(35,668)**	-
Less historic cost amortisation of grant reserve	**(339)**	-
Add current cost amortisation of grant reserve	**2,500**	-
Current cost loss	**(32,594)**	-

Notes to the regulatory accounts

11 (a) Reconciliation of current cost operating profit to net cash inflow from operating activities for the appointed business

	2007/08 £'000	2006/07 £'000
Current cost operating profit	**17,077**	-
Working capital adjustment	**(1,327)**	-
Movement in working capital	**26,554**	-
Current cost depreciation	**61,349**	-
Current cost loss on sale of fixed assets	**56**	-
Infrastructure renewals charge	**35,668**	-
Other non-cash items	**209**	-
Movement in provisions and creditors greater than one year	**2,616**	-
Net cash flow from operating activities	**142,202**	-

11 (b) Analysis of net debt

	Acquired with net assets £'000	Cashflow £'000	Other non cash changes £'000	At 31 March 2008 £'000
Cash in hand and at bank	(757)	3,601	-	**2,844**
Deposits and investments	-	54,000	-	**54,000**
Debt due within one year	**(757)**	**57,601**	**-**	**56,844**
Debt due after one year	-	(157,560)	(150,000)	**(307,560)**
Total	**(757)**	**(99,959)**	**(150,000)**	**(250,716)**

12 Regulatory capital value ("RCV")

	2007/08 £'000
Opening RCV	830,137
Capital expenditure	226,797
Infrastructure renewals expenditure	25,973
Infrastructure renewals charge	(35,668)
Grants and contributions	(1,076)
Depreciation	(61,349)
Closing RCV	**984,814**
Average RCV	**907,476**
Opening RCV	
At 1 April 2007	800,000
Indexed for 2007/08	30,137
Opening RCV	**830,137**

The table above shows the RCV used in setting the revenue caps for the period 2007 to 2010. The differences from the actual capital expenditure and depreciation will not affect revenue limits in the current period. Capital efficiences will be taken into account in the calculation for the next Price Control in 2010 ("PC10").

Annex A

Listing of Key Performance Indicators ("KPIs")

The tables below show the KPIs split by Customers, Cash, People and Compliance.

KPI	Customers	*Note*	Target 2007/08	**Actual 2007/08**	Target 2008/09
1	Supply interruptions (H) (DG3) - number of properties experiencing unplanned and unwarned interruptions (expressed as a percentage of households) in excess of:				
	- 6 hours		2.00	**1.35**	1.20
	- 12 hours		0.25	**0.25**	0.15
	- 24 hours		0.03	**0.01**	0.01
2	Response to billing contacts (DG6) - number of billing contacts answered within 5 working days as a percentage of total billing contacts (%)	*1*	96	**94.97**	97
3	Response to written complaints (H) (DG7) - number of written complaints answered within ten days as a percentage of total written complaints (%)	*2*	96	**90.61**	97
4	Billing of metered customers (DG8) - the percentage of customers receiving bills with metered accounts, who during the year received at least one bill based on a Company or customer meter reading (%)		95	**95.14**	95
5	Ease of telephone contact (H) (DG9 current) - percentage of customer calls answered during business hours (8am to 8pm Monday to Friday, 8am to 6pm Saturday and 10am to 6pm Sunday) within 30 seconds (%)		93	**94.78**	95
6	Ease of telephone contact (DG9 new)				
	- percentage of calls not abandoned (%)		#	**#**	99
	- percentage of calls not all lines busy (%)		#	**#**	99
	- customer satisfaction (score out of 5)		#	**#**	4.35
7	Inadequate pressure (DG2) - number of properties at risk of receiving pressure below the reference level of 10 metres head at a flow of 9 litres per minute, expressed as a percentage of total properties (%)	*3*	#	**#**	#
8	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	*4*	#	**#**	#
9	Sewer flooding (DG5) other causes. Number of properties affected by an incident of internal sewage flooding caused by equipment failure, blockage or collapse of a sewer (also termed 'other causes')	*4*	#	**#**	#
10	Sewer flooding (DG5) 'at risk'. Number of properties considered to be at risk of flooding by sewage, caused by overload, more frequently than once in 10 years	*4*	#	**#**	#

Annex A: Listing of KPIs (continued)

KPI	Cash	Note	Target 2007/08	Actual 2007/08	Target 2008/09
11	Leakage (H) - reduction in overall leakage - million litres per day (Ml/d)		157.0	**156.52***	146.0
12	Operating margin excluding exceptionals (%)	*5*	26.91**	**25.72**	27.74
13	Comparative operating cost efficiency (H) - expressed in £m from a 2003/04 base	*6*	29.8	**#**	38.6
14	Comparative capital cost efficiency (H) - expressed as a percentage of total capital expenditure (%)	*6*	2.1	**#**	8.3
15	Billing				
	(a) percentage of measured bills issued within 5 working days of a meter reading excluding any exception readings that require investigation (%)		#	**#**	100
	(b) percentage of measured bills issued within 5 working days of a meter reading not taking account of exception readings needing investigation (%)	*7*	#	**#**	#
16	Days' sales outstanding (days)		66	**67**	60***

KPI	People	Note	Target 2007/08	Actual 2007/08	Target 2008/09
17	Health and safety - reduction in the number of 'days lost' due to accidents based on the previous three year average (days)	*8*	620	**840**	Replaced by target 18
18	Health and safety (H) - reduction in the number of absence-related accidents based on the previous three year average (number)/(%)		18 5% reduction	**16**	15 5% reduction
19	Manpower numbers - number of posts		1,881	**1,726**	1,716
20	Staff attendance (H) (%)	*9*	95.7	**95.0**	95.7
21	Staff satisfaction levels (H) - increase in the number of staff saying NI Water is a good place to work from 2005/06 survey result (%)	*10*	20	**#**	under construction

* *Subject to final validation by Reporter (a professional commentator and certifier) and agreement of NIAUR. Refer to page 27*

** *The target for operating margin was under development throughout the year following deferment of domestic charging in 2007/08*

*** *Indicative target. Subject to agreement with Crystal Alliance (customer billing partner)*

Annex A: Listing of KPIs (continued)

KPI	Compliance	Note	Target 2007++	Actual 2007++	Target 2008++
22	Drinking water quality percentage compliance with the Water Supply (Water Quality) Regulations (NI) 2007				
	(a) taking into account Authorised Departures	*11*	99.72	**99.62**	Replaced by target 23
	(b) not taking into account Authorised Departures	*11*	99.60	**99.33**	
23	Drinking water quality (H) - Mean zonal compliance (%)	*12*	99.44	**99.30**	99.35
24	Operational Performance Indicator (Turbidity, Iron and Manganese) (%)		98.90	**98.98**	98.95
25	Wastewater quality (H) - wastewater treatment works serving greater than 250 population equivalent achieving compliance with Water Order Consents expressed as a:				
	(a) percentage of works	*13*	84.0	**84.23**	86
	(b) percentage of population equivalent	*13*	82.5	**84.38**	89
26	Wastewater Treatment Works passing Urban Waste Water Treatment Directive numeric consents (%)		80.2	**86.01**	90.5
27	Pollution incidents (H) (high/medium) number of pollution incidents attributed to NI Water	*14*	46	**60**	56
28	Capital Works Programme - completion of schemes costing over £250k, scheduled to start in the Capital Works Programme (%)		90+	**96.6**	90+

Notes to tables:

1) Target failed for 2007/08 due mainly to poor performance in April and May 2007, impacted by high volumes of customer queries during consolidation of the new billing system.

   A Service Improvement Plan (SIP) was enacted. Performance since July 2007 has averaged 99.27% as early billing issues were resolved and systems and processes bedded in, with actual performance from November 2007 to March 2008 at 100%.

   However, the reduced volume of queries meant that cumulative performance narrowly missed the target at year end.

2) See page 18 for explanation of failure to achieve target.

3) Targets are not currently set or measured. The DG2 Register continues to be developed. Once all areas have been assessed, targets can then be set in 2008/09.

4) Targets not currently set or measured. However, compilation of DG5 Flooding Database continues to progress.

5) Operating margin calculated as net surplus/deficit on operations before interest, tax and dividend (after adjustment for voluntary early departure and business improvement costs) divided by total revenue. Target failed in 2007/08 primarily due to additional environmental provisions.

Annex A: Listing of KPIs (continued)

6) Efficiencies expressed in 2006/07 prices. The methodology for measurement of the opex and capex efficiencies is being developed in conjunction with the Shareholder and NIAUR. The targets have been recorded as 'achieved' on the basis that the efficiencies have been deducted from the 2007/08 budget.

7) Target not currently set or measured. The target will be set in 2008/09 when the levels of performance can be understood and the processes to ensure compliance with the target can be put in place. The aim of these two measures is to ensure that our customers receive bills on a timely basis and to minimise the number of investigations into meter readings that delay the issuing of invoices.

8) This target is strongly affected by a small number of staff who were absent from early on in the reporting year. Two staff on their own contributed to over 400 days lost in 2007/08 due to relatively minor incidents but with resultant debilitating injuries, such as back pain.

   This target is being revised for the future to make it a rolling 12 month record and incorporated in to the recording of employee absence in the NI Water Board's Safety Health and Environment report. All employees involved in this accumulation of days lost were referred to Independent Occupational Health ("IOH"). Two individuals remain absent with reviews of their cases being held by IOH and personnel section in January 2008.

9) See page 29 for explanation of failure to achieve target.

10) Target under construction following the development of a new staff satisfaction survey. Target to be set in 2008/09 which focusses on an employee engagement score.

11) Target failed primarily due to poorer than expected raw water quality causing increased Trihalomethane exceedences. Target replaced by target 23 in 2008/09.

12) See page 32 for explanation of failure to achieve target.

13) This target includes a small number of wastewater treatment works with less than 250 population equivalent and an EHS numeric discharge standard at the start of 2007. Final outturn subject to agreement with EHS.

14) See page 34 for explanation of failure to achieve target. Final outturn subject to agreement with EHS.

Key to tables:

Achieved

Not achieved

\# not measured / no target

\+ target set on financial year basis in line with targets 1 to 21

H headline key performance indicator

++ targets set and measured on a calendar year basis

Annex B

Explanation of KPIs

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.

Definition of target

Defined as the percentage of overall properties connected to the water distribution system that are affected by unplanned interruptions in water supply lasting greater than 6 hours, 12 hours and 24 hours. Unplanned interruptions include:

- interruptions caused by third parties;
- those for which NI Water is solely responsible; and
- overruns of planned interruptions.

Calculation of target

Detailed interruption data pertaining to each interruption to supply is collected, 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 are counted on site during the course of the repair. Alternatively, and mainly for larger interruptions, house numbers are recorded using a Geographic Information System ("GIS").

Target 2 – Response to Billing Contacts

Purpose

The purpose of this KPI is to measure the total number of billing contacts received in the period and the time taken to respond to them.

Definition of target

The term billing contact refers to any written, telephone or direct contact with customers about billing issues. These include

- notification of change of name or address;
- requests to change payment methods; and
- queries about how charges are calculated and applied.

Measurement of target

Calculated as the number of billing contacts answered within 5 working days as a percentage of total billing contacts. Day of receipt of the contact is treated as day zero and the next working day as day one.

Sources, assumptions and limitations

All customer contact activities, including billing, telephone and mail are managed through the NI Water Customer Relations Centre and then reported on by Customer Services Directorate.

Implementation of a Customer Service Improvement Programme, linked to Business Improvement, has consolidated the new Customer Relations Centre's 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 3 – Response to Written Complaints

Purpose

The purpose of this KPI is to measure the number of written complaints received during the reporting year and time taken to respond to them.

Parameters of target

A written complaint is any written letter, fax or e-mail, however mildly worded, that draws attention to an action or inaction of NI Water, or a service provided by NI Water or agent or contractor, that has fallen short of the correspondent's expectations. For many customers, telephone contact offers a more immediate way to complain about customer service just as if the complaint had been submitted in writing.

Explanation of KPIs (continued)

Measurement of target
Calculated as the number of written complaints answered within 10 working days as a percentage of total complaints. The day of receipt of the contact is treated as day zero and the next working day as day one.

Sources, assumptions and limitations
All customer contact activities, including billing, telephone and mail, are managed through the NI Water Customer Relations Centre and reported on by Customer Services Directorate. Implementation of a Customer Service Improvement Programme, linked to Business Improvement, has consolidated the new Customer Relations Centre's 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

Purpose
This covers the proportion of customers who receive bills for metered accounts during the reporting year based on actual meter readings and the proportion based on estimates.

Parameters of target
For metered customers, good customer service means receiving regular, accurate bills. Customers are then less likely to accumulate debt or credit because of estimated bills. Actual meter reading also helps NI Water to identify abnormally high water use, which is often the result of leaks, and take corrective action.

Measurement of target
We assess performance in this area by reference to:

- the percentage of customers receiving at least one bill based on an actual reading (taken by NI Water or provided by the customer) during the year; and
- the number of meters not read by NI Water during the past two years.

Sources, assumptions and limitations
NI Water can exclude any unusual accounts or unusual circumstances that would complicate the measure. These exclusions are;

- charged on other basis;
- properties occupied for less than six months;
- complex accounts;
- void properties; and
- check meters.

Target 5 – Ease of Telephone Contact (DG9 current)

Purpose
The aim of this indicator is to measure the ease with which customers can make contact with NI Water.

Parameters of target
This target is designed to monitor the incoming telephone traffic from customers.

Measurement of target
To measure the percentage of calls answered during business hours within 30 seconds. Our Waterline is open 24 hours a day every day. Our Billing Enquiries line is open 8am to 8pm (Monday to Friday), 6am to 6pm on Saturdays and 12 noon to 6pm on Sundays.

Sources, assumptions and limitations
Business hours relate to Customer Relations Centre's published hours.

Target 6 – Ease of telephone Contact (DG9 new)

Purpose
The aim of this indicator is to identify the ease with which customers can make telephone contact with NI Water during office hours and their satisfaction with the way the Company handles their telephone call.

Parameters of target
This target is designed to monitor incoming telephone traffic which can be regarded as originating from NI Water's customer base.

Measurement of target
Performance is assessed by reference to the total calls received to customer contact lines, all lines busy (calls that receive engaged tones or are advised that NI Water is unable to take their call) and total calls abandoned (calls received which are abandoned before it is substantively answered by NI Water).

Total call handling satisfaction and total telephone complaints are also assessed.

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;

Explanation of KPIs (continued)

- 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;
- 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; and
- temporary customer contact points established to meet a specific need e.g. to handle calls about a localised water incident or promotion of a NI Water initiative. Temporary customer contact points are defined as those telephone numbers (separate from the principal advertised customer contact point) set up to deal with a single topic which will be closed down once the issue has been resolved.

Target 7 – 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 Register.

Parameters of target

The target refers to the number of properties which have received an improved standard of service thus ensuring they consistently receive pressure and flow above the reference level and enabling them to be removed from the DG2 (low pressure) Register.

Measurement of target

Properties will be 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 watermain.

Sources, assumptions and limitations

Properties currently assessed to be below the reference level have been derived from a combination of Zonal Studies and field pressure measurement studies. The Zonal Studies have not captured recent improvements to the distribution network. Target under construction (refer to Annex A Note 3).

Target 8 – Sewer flooding (hydraulic incapacity)

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

Target under construction (refer to Annex A Note 4).

Measurement of target

Target under construction (refer to Annex A Note 4).

Assumptions and limitations

Target under construction (refer to Annex A Note 4).

Target 9 – Sewer flooding (other causes)

Purpose

The purpose of this KPI is to measure the number of properties affected by an incident of internal sewage flooding caused by equipment failure, blockage or collapse of a sewer (also termed other causes).

Parameters of target

Target under construction (refer to Annex A Note 4).

Measurement of target

Target under construction (refer to Annex A Note 4).

Assumptions and limitations

Target under construction (refer to Annex A Note 4).

Target 10 – Sewer flooding (at risk)

Purpose

The purpose of this KPI is to measure the number of properties considered to be at risk of flooding by sewage, caused by overload, more frequently than once in 10 years.

Parameters of target

Target under construction (refer to Annex A Note 4).

Measurement of target

Target under construction (refer to Annex A Note 4).

Explanation of KPIs (continued)

Assumptions and limitations
Target under construction (refer to Annex A Note 4).

Target 11 – Leakage

Purpose
The purpose of this target is to measure the volume of water lost from the water network distribution system that can not be accounted for other than leakage.

Parameters of target
This target relates to the reduction in the level of leakage from the water distribution system. The overall leakage level at 31 March 2007 was 168 million litres per day (Ml/d), and a reduction of 11 Ml/d was required to achieve the target of 157 Ml/d for 31 March 2008. Subject to final validation by Reporter (a professional commentator and certifier) and agreement of NIAUR.

Measurement of target
The monthly estimate is based on the 2007/08 Water Balance, changes in metered consumption and water produced into distribution.

Sources, assumptions and limitations
Where Company specific data is not available reliance is placed on approved industry standard values and practice together with statistics from approved agencies. Refer to page 27.

Target 12 – 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 meet tax payments, reinvestment and dividends.

Parameters of target
The operating margin includes profit before tax and excludes exceptional costs (voluntary early departure and business improvement costs), interest, tax and dividend payments.

Measurement of target
The target is calculated as net surplus/deficit on operations before interest, tax and dividends (after adjustment for voluntary early departure and business improvement costs) divided by total revenue.

Sources, assumptions and limitations
The exceptional costs are excluded from the target as they are deemed to be non recurring.

Target 13 – Comparative operating cost efficiency

Purpose
The purpose of this target is to measure the operating cost efficiencies.

Parameters of target
The efficiencies relate to base line (recurring) operational expenditure and exclude one off expenditure such as business improvement and non-controllable expenditure such as pension costs, regulatory fees and inflation.

Measurement of target
NI Water is in the process of developing its methodology for measurement of the efficiencies in conjunction with NIAUR.

Sources, assumptions and limitations
The achievement of the efficiencies is dependent on continued funding of the Business Improvement Programme.

Target 14 – Comparative capital cost efficiency

Purpose
The purpose of this target is to measure the capital cost efficiencies.

Parameters of target
The target includes all expenditure within the capital programme.

Measurement of target
NI Water is in the process of developing its methodology for measurement of the efficiencies in conjunction with NIAUR.

Sources, assumptions and limitations
The achievement of the efficiencies is dependent on continued funding of the Business Improvement Programme.

Target 15 – Billing

Purpose
Targets 15 and 16 look at the cash cycle. Target 15 measures the first part of the cash cycle, the length of time it takes to issue bills to customers.

The aim of these two measures is to ensure that our customers receive bills on a timely basis and to minimise the number of investigations into meter readings that delay the issuing of invoices.

Parameters of target
Target under construction (refer to Annex A Note 7).

Measurement of target
Although the target is under construction, measurement will be based on the percentage of bills issued within five days of the meter reading.

Explanation of KPIs (continued)

Sources, assumptions and limitations
To maintain satisfactory levels of customer service as well as timely notification of the customer's consumption, it is important that the invoices are issued on a timely basis. Unmeasured bills are sent on an annual basis and the annual bill run is likely to be excluded from this measure.
The achievement of this target is dependent on the performance of the third party contractor handling customer billing and collections.

Target 16 – Days' sales outstanding

Purpose
This target measures the second part of the cash cycle, the speed of collection of amounts billed. The days' sales outstanding method of calculating debtor days is used to measure the number of days worth of sales remaining outstanding at a point in time. The 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 days' sales outstanding calculation uses the monthly billing total for measured and unmeasured water, sewerage and trade effluent. The total debt figure is the accounts receivable total for water, sewerage and trade effluent.

Sources, assumptions and limitations
The achievement of this target is dependent on the performance of the third party contractor handling customer billing and collections. The collection performance is closely linked to NI Water's ability to process accounts through the water supply disconnection process.

Target – 17 Health and safety – 'days lost'

Purpose
To monitor 'days lost' trends and thus take appropriate action to reduce absence due to accidents at work.

Parameters of target
Target includes all 'days lost' due to accidents in the workplace, measured on an annual basis.

Measurement of target
Average of previous three years' outcome less a 5% reduction.

Sources, assumptions and limitations
Health and Safety ("H&S") statistics are returned by all Directorates/ Functions through the Safety Advisory Officers with checks against HR absence information. Limitations are the lack of control of variables attached with any one accident event, which might in different circumstances including timing, environment or staff involvement have a different outcome in terms of absence.

Target 18 – Health and safety – 'absence related accidents'

Purpose
To monitor accident trends and thus allow NI Water to take appropriate action to reduce accidents at work.

Parameters of target
Target includes accidents which result in at least one full day's absence immediately following the date of the accident.

Measurement of target
Average of previous three years total 'absence-related accidents' less a 5% reduction.

Sources, assumptions and limitations
H&S statistics are returned by all Directorates/ Functions through the Safety Advisory Officers.

Target 19 – Manpower

Purpose
To measure and monitor the headcount, by full-time equivalent ("FTE"), to achieve targets as per SBP.

Parameters of target
Number of full and part time staff (both permanent and temporary).

Measurement of target
Based on information supplied by the Human Resource Management System ("HRMS").

Explanation of KPIs (continued)

Sources, assumptions and limitations
HRMS system due to be replaced in 2008/09.

Target 20 – Staff attendance

Purpose
To monitor NI Water's staff attendance.

Parameters of target
Based on number of permanent full and part time staff and their attendance at work.

Measurement of target
Based upon the number of days which staff attend for work against the total number of days available for work .

Assumptions and limitations
Excludes temporary staff.

Target 21 – Staff satisfaction levels

Purpose
The staff satisfaction survey ("Pulse") is designed to give us 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. NI Water is moving to a new measurement of staff satisfaction survey that measures the engagement level of staff, and their level of satisfaction with the Company, which 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 the seven critical statements for every respondent, which when analysed across all the responses equates to a corporate engagement score out of 5. This is then translated into an index score out of 100.

The target will be 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 will be measured against 7 critical elements:

- satisfaction;
- motivation;
- alignment;
- pride;
- customer focus;
- loyalty; and
- advocacy.

Sources, assumptions and limitations
The survey is carried out through an online exercise and there is a need to continue with distribution of paper surveys to the front line staff who currently do not have the technical access to the survey.

Targets 22a and 22b – Drinking water compliance

Purpose
The purpose of targets 22a and 22b are to assess compliance at the customer tap. 22a takes Authorised Departures into account and 22b assesses compliance not taking Authorised Departures into account.

Parameters of target
Targets relates to quality of water supplied at the customers' taps and are assessed on a calendar year basis.

Measurement of target
Water Supply (Water Quality) Regulations (NI) 2002 specify the number of parameters to be analysed from samples taken at customer tap; Water Treatment Works, and service reservoirs; based on either the population supplied, or the volume of potable water produced. NI Water assesses its percentage compliance against mandatory determinations taken either at the customer tap, or else an authorised supply point during the calendar year reported on. There is a provision to have time banded authorised departures of results above the regulatory Prescribed Concentration or Value ("PCV") limit for certain parameters where existing water treatment is ineffective. These time banded authorised departures are granted by the DWI, provided a planned programme of work is in place to address the water treatment effectiveness.

Assumptions and limitations
Targets 22a and 22b have been replaced by the Mean Zonal Compliance ("MZC") target as the industry standard methodology for compliance assessment.

Target 23 – Drinking water quality - mean zonal compliance

Purpose
The purpose of the MZC assessment is to monitor regulatory compliance at the customer's tap. MZC is an industry agreed methodology and allows NI Water to benchmark against other water companies.

Explanation of KPIs (continued)

Parameters of target
MZC is a 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 PCV. For any parameter, mean zonal compliance is the mean of the zonal compliance values for all zones in Northern Ireland. Overall mean zonal compliance is the mean or average of the mean zonal compliance values for all parameters as defined by the DWI.

Assumptions and limitations
The 2008/09 target assumes that the PPP works are fully compliant by October 2008. If the weather pattern for 2008 is similar to 2007 the deterioration in raw water quality experienced in 2007 is likely to continue to be an issue for 2008.

Target 24 – Operational performance indicator – Turbidity, Iron and Manganese (“OPITIM”)

Purpose
The purpose of OPITIM is to monitor progress with the mains rehabilitation programme and to allow us to assess 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 the DWI.

Measurement of target
As per target 23 but only for Turbidity, Iron and Manganese parameters.

Assumptions and limitations
Continuation of the mains rehabilitation programme assumes a gradual improvement in Turbidity, Iron and Manganese.

Target 25a and 25b – Wastewater quality

Purpose
The purpose is to monitor progress on compliance of those Wastewater Treatment Works serving more than 250 population equivalent with Water Order Consent standards and the percentage of the population equivalent being served by compliant Wastewater Treatment Works.

Parameters of target
Target relates to the percentage of the 279 Wastewater Treatment Works whose effluent quality complies with the Water Order Consents set by EHS. Target relates to performance of the same Wastewater Treatment Works 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 wastewater treatment works relating to the population equivalent served by the works. Laboratories analyse samples for those parameters included in the Water Order Consents. Compliance for each wastewater treatment works is assessed on a parameter basis using the Urban Waste Water 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 parameter included in the Water Order Consents. When this number of exceedances is surpassed a works is deemed to fail. A number of wastewater treatment works have upper tier limits on the parameters included in the registered discharge standard and one exceedance of these values will result in the failure of a works.

For target 25(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 target met.
For target 25(b), the population equivalent served by compliant works as a percentage of the total population equivalent served is calculated.

Explanation of KPIs (continued)

Assumptions and limitations
The Water Order Consents are issued by EHS who make the assessment of which Waste Water Treatment Works meet the standards of the Water Order Consents. The Population Equivalent is based on the Asset Management Plan.

Target 26 – Wastewater Treatment Works passing Urban Waste Water Treatment Directive numeric consents

Purpose
The purpose is to monitor progress on compliance of those Wastewater Treatment Works subject to the numeric standards of the Urban Wastewater Treatment Regulations.

Parameters of target
The target relates to the percentage of the 79 Wastewater Treatment Works which comply with the numeric standards of the Urban Wastewater Treatment Regulations.

Measurement of target
Samples are taken at each qualifying Wastewater Treatment Works. NI Water's laboratories analyse the samples for those parameters set out in the Urban Wastewater Treatment Regulations. Compliance for each Wastewater Treatment Works 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 number is surpassed a Wastewater Treatment Works is deemed to fail. Overall compliance is calculated as the percentage of the Wastewater Treatment Works meeting the numeric standards.

Sources, assumptions and limitations
The qualifying Wastewater Treatment Works are determined in consultation with EHS who make the assessment of the number of Wastewater Treatment Works meeting the standards of the Urban Wastewater Treatment Regulations.

Target 27 – Pollution incidents

Purpose
To provide a means of monitoring the number of high and medium severity pollution incidents attributed to NI Water by EHS.

Parameters of target
The target relates to a reduction in the number of high and medium severity pollution incidents.

Measurement of target
EHS provide monthly audit figures indicating high, medium and low severity pollution incidents that they have attributed to NI Water.

Sources, assumptions and limitations
The number of high and medium severity pollution incidents attributed to NI Water is based on EHS classifications.

Target 28 – Capital Works Programme

Purpose
To provide a means of monitoring progress of the 2007/08 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 £250k included in the Capital Works Programme.

Measurement of target
The target relates to schemes completed during the year. 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 £250k.

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