northern ireland water

Annual Report 2008/2009

investing
improving
delivering

Northern Ireland Water Limited
Annual Report and Accounts for the year ended 31 March 2009

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

9 October 2009

NIA 05/09-10

"By continuing our focus on investment, improvement and delivery I believe we can build a water and wastewater company of which the people of Northern Ireland can be proud."

Chris Mellor
Chairman and Acting Chief Executive
30 June 2009

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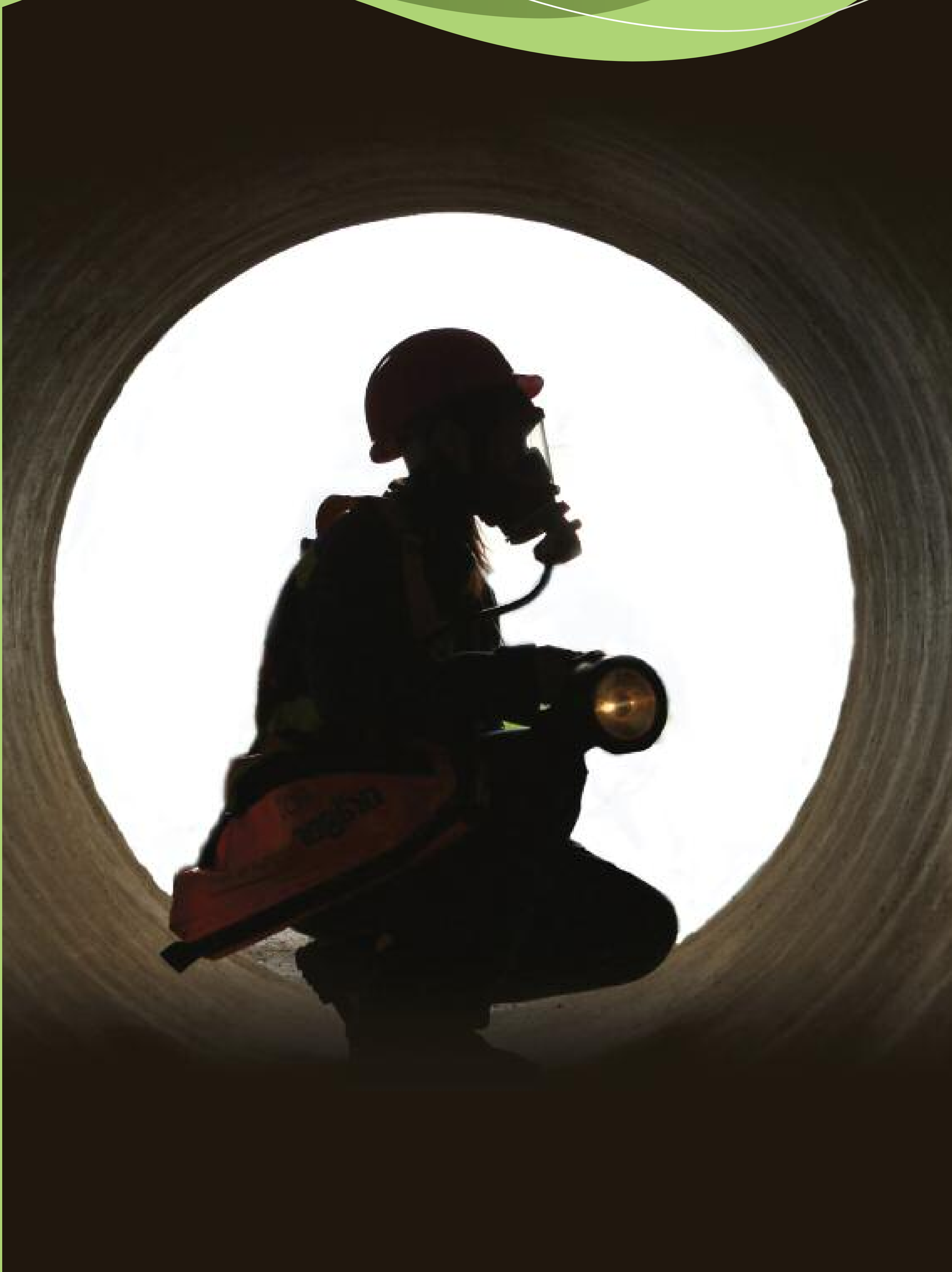
About this report

Northern Ireland Water ("NI Water") is delighted to present its Annual Report for the year ended 31 March 2009. This report sets out the performance for the second year 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.

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.



Apprentice Training Programme - Antrim Training Centre, January 2009

HIGHLIGHTS

What we do…

NI Water is responsible for the delivery of water and sewerage services in Northern Ireland.

What we did…

Delivered clean safe drinking water to approximately 807,000 households and businesses;

Supplied 632 million litres of good quality drinking water every day to customers through more than 26,500 km of water mains;

Collected 346 million litres per day of of wastewater from 660,000 businesses and households connected to the sewerage system; and

Transported sewage through approximately 14,000 km of sewers to works where it was treated and disposed of safely.

Our aim…

"Working as one team we will become the number one water utility in the UK by 2014."

Our achievements…

NI Water was appointed the sole provider of water and sewerage services in Northern Ireland on 1 April 2007 and has taken great strides forward in revolutionising the local water industry. We are already well on target to deliver 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.

97.09% of telephone calls answered within 30 seconds

Customers… delivering high-quality customer services

- Only 1.094% of households experienced supply interruptions lasting more than 6 hours
- 97.09% of telephone calls answered within 30 seconds
- Achieved an average score of 4.4 out of 5 in our quarterly Customer Satisfaction Surveys

Cash… creating value for money through a sustainable service

- Delivered operational cost efficiencies of £17.5m from a 2007/08 base
- Delivered capital cost efficiencies of 8.6% of the total capital programme
- Absorbed a reduction from budget in billed income of £8m coupled with an increase from budget in energy costs of over £6m.

People… building the capacity to deliver

- An improved focus by all staff on reducing absence related accidents.
- Successful implementation of the Voluntary Early Retirement and Severance Schemes
- Introduction and launch of the NI Water Graduate and Modern Apprentice Programmes

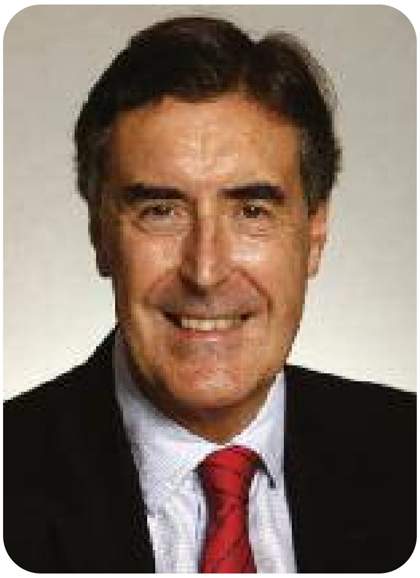
Compliance… investing for the future

- Invested efficiently at over £1m per working day for customers and the environment
- Delivered the best ever results for NI for drinking water quality and discharges to the environment
- Completed over 90% of our major capital schemes

External stakeholders… building strong relationships and operating responsibly

- Worked within the requirements of our Regulatory Licence and Shareholder Governance Letter
- Delivered the Annual Information Return 08 to the NIAUR.
- Developed the PC10 Submission which will detail how we will run the business in an efficient and sustainable manner.

CHAIRMAN AND ACTING CHIEF EXECUTIVE'S STATEMENT



Chris Mellor, Chairman and Acting Chief Executive

Investing, Improving, Delivering.

Over the course of the last year, we as a business and I as the Chairman and Chief Executive at NI Water have made extra efforts to get out into the wider community to tell the story of what we are doing to encourage a better understanding of the reform agenda which is underway and increase awareness of why it is good for Northern Ireland.

It is a story to which we have found people receptive. Given the scale of the investment we are carrying out on our customers' behalf, it is understandable that they want to know what we're doing with their money, but in my experience it is more than that. I am regularly struck by the attachment that the people of Northern Ireland have to their water and wastewater service. There is a deep sense of ownership and connection and a genuine interest in the progress that we are making.
As we reach the final year of our three year Strategic Business Plan ('SBP') and transformation process, one question that these customers and our stakeholders ask is, "is it delivering?"

When I am asked this question I look for the answer in the service we provide to customers. From a standing start we have created a customer enquiry handling system which has delivered on all its targets, is facilitating a new joined up approach to dealing with customer problems and over the course of the last year coped with one of the largest and most disruptive events in the service's history (August 2008 flooding). Over the course of this period we have also developed our in-house management capacity to the point where we were able to terminate our contract with the third party manager of this system and take direct control.

The effect of these innovations is real. We have been able to improve the experience of our customers to the point where 82% of them told a Consumer Council survey[1] that they were satisfied or very satisfied with the service provided by NI Water.

I also look for the answer in the quality of our core products – clean drinking water and effective treatment of wastewater. From a position where we were facing infraction proceedings from Europe, our investment and improvement programme has moved us to the position where we are now supplying the best quality drinking water ever in Northern Ireland and providing the best ever wastewater treatment service.

This is not only good news for our customers. As the largest and arguably most important environmental steward in Northern Ireland, our reform and investment programme is having a profound and lasting impact on the region's aquatic environment.

When I am asked if reform of NI Water is delivering, I look all around me at the dedication and determination of our workforce, and the transformation of the skills being employed. All of our progress has been achieved while we have been reducing the number of NI Water employees and introducing more modern ways of working.

Our commitment to the principle and practice of ongoing training is essential to support our ongoing change process and it is deeply held. It was also externally recognised earlier this year when a joint submission between NI Water and UNITE the Union was awarded the STAR (Showcasing Teamwork Award Recognition) Award by Aontas, the body responsible for promoting lifelong learning across the island of Ireland.

Everyone on the NI Water team has played their part in achieving the successes we have enjoyed and it is a testament to their commitment to what we do, that so much has been achieved in such a short period.

For the year ahead, the final year of the SBP period, our work programme is in place. We have demonstrated, and

1 Tapping into Customer Views on Water. A Research Report by the Consumer Council commissioned by NI Water, March 2009.

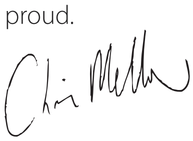
Chairman Chris Mellor with DRD Minister Conor Murphy at the Official Opening of Larne WwTWs - September 2008

will continue to demonstrate that NI Water can be trusted to deliver. We have had challenges along the way and we continue to work with stakeholders to overcome those, but on balance the story of NI Water in 2008 / 2009 should be seen as one of investment, improvement and delivery.

Looking forward, it is important that we and all our stakeholders appreciate that NI Water is on a journey and that the last two years, indeed the entire Strategic Business Plan period (2007 – 2010) is the start of that journey. Relative to where we have been in the recent past, our story is one of great success. Relative to where we need to get to, the challenge remains significant.

In deciding where the company's focus should be directed over the coming years as part of the Utility Regulator's Price Control 2010 process, we have worked closely with stakeholders to strike the appropriate balance. Building on research conducted on our behalf by the Consumer Council and in response to environmental and social guidance issued by our shareholder, we have submitted what we believe to be a robust and well balanced business plan for 2010 – 2013 (summary available at www.niwater.com).
At the time of writing, the Regulator is considering this business plan and will issue a draft determination in the Autumn. We are confident that if our plan is approved and funding is secured, we can continue the process of transformation we have started and further close the efficiency and effectiveness gap with water companies in England, Scotland and Wales.

By continuing our focus on investment, improvement and delivery I believe we can build a water and wastewater company of which the people of Northern Ireland can be proud.



Chris Mellor
Chairman and Acting Chief Executive
30 June 2009

STRATEGIC OVERVIEW

Strategic objectives

NI Water's strategic objectives are focussed on its customers, environment, employees 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;
- **Employees** - NI Water will be an employer of choice, offering our employees 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 26 KPIs spread across the four scorecard headings, of which 12 are headline indicators and 14 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 summarized in **Figure 1.** We have delivered against the majority of our commitments for 2008/09 as set out in our Strategic Business Plan (2007-10) and moved closer to our mission:

"NI Water will become a customer focused 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 2008/09 and comparative figures for 2007/08 is shown below.

Figure 1 – Headline KPIs

KPI	Target 2008/09	Actual 2008/09	Target 2007/08	Actual 2007/08
Customers				
Supply interruptions %				
(a) >6hours	**1.20**	**1.094**	2.00	1.35
(b) >12 hours	**0.15**	**0.259**	0.25	0.25
(c) >24 hours	**0.01**	**0.077**	0.03	0.01
Response to written complaints (%)	**97.0**	**97.60**	96.0	90.61
Ease of telephone contacts (%)	**95.0**	**97.09**	93.0	94.78
Cash				
Leakage – million litres per day	**146.0**	**180.9***	157.0	156.52
Comparative operating cost efficiency (£m)	**38.6**	**#**	29.8	#
Comparative capital efficiency (%)	**8.3**	**#**	2.1	#
People				
Health and safety (absence-related accidents)	**15**	**14**	18	16
Manpower numbers (number of posts)	**1,716**	**1,617**	1,881	1,726
Staff attendance (%)	**95.7**	**95.3**	95.7	95.0

	Target for Jan-Dec 2008	Actual for Jan-Dec 2008	Target for Jan-Dec 2007	Actual for Jan-Dec 2007
Compliance				
Drinking water quality – Mean zonal compliance (%)	**99.35**	**99.49**	99.44	99.30
Wastewater quality				
(a) percentage of works (%)	**86.0**	**88.24**	84.0	84.23
(b) percentage of population equivalent (%)	**89.0**	**90.45**	82.5	84.38
Pollution incidents (number)	**56**	**56**	46	60

Key to table: Achieved ■ Not achieved ■

* *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 2008/09 budget.*

\# *Subject to final validation by Reporter (a professional commentator and certifier) and agreement of NIAUR.*

New performance indicators

NI Water is just about to enter its first Price Control period (PC10). As part of the business planning process for PC10 a set of new KPIs is being developed and will be recommended to the Utility Regulator. The Business Plan for PC10 also takes account of the Ministerial Draft Environmental and Social Guidance which set out a number of funding assumptions and key investment priorities for NI Water during the PC10 period as shown below:

Priority 1
Mandatory EU obligations
Priority 2
Improving Service Quality
Priority 3
Water Leakage & Pressure
Priority 4
Surface flooding
Priority 5
Longer-term EU Requirements
Priority 6
Sustainability & Climate Change

Driving the Strategy and Operational Challenge of NI Water

NI Water has developed, and is currently implementing a Corporate Management System ("CMS"). The CMS will ensure that corporate projects and initiatives link directly to NI Water's vision and strategy for the post SBP period. It provides a framework for linking corporate strategic direction to organisation design, implementation and measurement. Consideration of strategic direction has already taken place and underpins our PC10 Business Plan. The implementation of the CMS as a business planning framework within NI Water enables us to undertake a review of our corporate vision and strategic objectives.

As part of the CMS we are currently embarking on an organisational restructuring to enable us to deliver an efficient and effective business model. An overview of the NI Water Corporate Management System is shown below:

Figure 2 – Corporate Management System

Belfast Sewers Project, Terminal Pumping Station - June 2008

OPERATIONAL PERFORMANCE, MANAGEMENT OF RESOURCES AND FINANCIAL PERFORMANCE

Business overview

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

As the UK's newest water company, NI Water continues to invest at a rate of £1 million per working day in upgrading Northern Ireland's antiquated water and sewerage infrastructure. After two years 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.

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 and world economy;
- change in demand due to changes in NI Water's customer base; and
- unexpected changes in input cost inflation.

The economic downturn over the last twelve months has had an effect on the financial performance of NI Water. Consumption levels have decreased leading to a reduction in measured and unmeasured income. The worsening of the economic conditions also has negative implications for the level of bad debt faced by NI Water. The population in Northern Ireland is projected to increase from 1.774m in 2008 to 1.787m in 2009 (+0.73%). This would suggest that demand is unlikely to significantly diminish.

In what was a very difficult year NI Water have continued to work hard in providing this vital service for the people of Northern Ireland and, through major capital investment for the future of £1m per working day, believe that we have achieved credible results. A reduction from budget of over £8m in billed income and adverse variance in energy costs of more than £6m was absorbed by the Company during the year. This was due to effective and efficient management of the cost base alongside key initiatives such as the Voluntary Early Retirement ("VER") and Severance ("VES") Scheme, the reduction of seventeen depots to five key hubs, as well as the introduction of the Mobile Work Management ("MWM") project.

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, which is a replacement for direct charges. During the current 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

Altnahinch WTWs –April 2009

revenues 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 uncertainties as to factors that may impact NI Water's performance. 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.

Mrs Savage gets a helping hand to plant out her garden from NI Water staff, as part of NI Water's Rural Wastewater Investment Programme

CUSTOMERS...

Providing Quality Service to Customers

Customer billing and contact

During 08/09 NI Water commissioned CCNI to carry out independent research of consumer views. This research showed that 82% of consumers are satisfied with services provided by NI Water. We will be working in conjunction with CCNI and other stakeholders to improve on this level of customer satisfaction in the coming year.

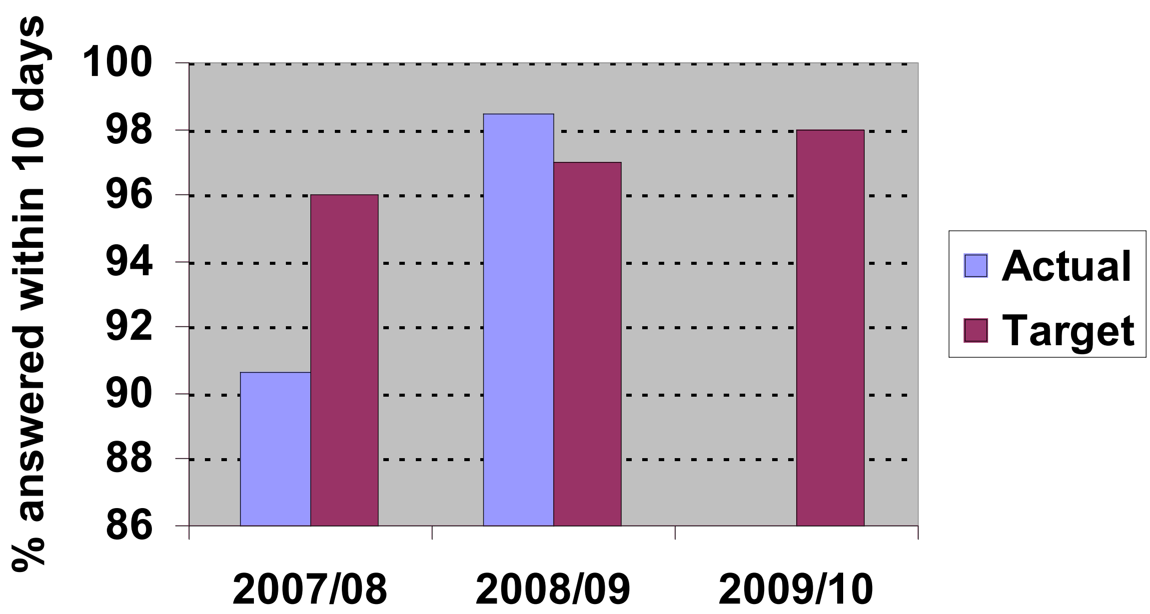
The quarterly independent market research introduced in 07/08 continued to be carried out on our behalf. We significantly improved the Customer Satisfaction Score from ranking 24/24 with a score of 4.23 in 07/08, to a ranking 12/24 with a score of 4.64 by Quarter 4 of 08/09.
In 08/09 we exceeded our target for percentage of written complaints responded to in 10 days by achieving 97.60% against an increased target of 97% **(see figure 3).** In 09/10 we will be focusing on addressing the root cause of complaints, with the aim of reducing the number of complaints received and improving our overall customer service.

Systems have been developed and implemented to improve the quality of information delivered to our customers at first point of contact and this will be extended in 09/10.

Our Internet site has been improved to make it more user friendly. It now incorporates a Frequently Asked Questions section and an easy to use '*Contact Us*' link.

During 07/08 NI Water experienced particular challenges around the delivery of our Septic Tank desludging service. We worked closely with our partners to resolve the issues and meet the required level of service. In 08/09 the problems were eradicated and we delivered this service to 98% of our customers within the 12 day SLA. In 09/10 NI Water will strive to further improve this level of service.

Figure 3 – Response to Written Complaints



Non-domestic charges

Following the phasing in (at 50%) of new unmeasured charges (based on Net Annual Valuation) and measured sewerage charges in April 2008, measured sewerage charges will be charged in full from 1 April 2009. However, as a result of the decision to defer domestic charges during 2009/10, a new domestic allowance of 190 m^3 for eligible sewerage customers has been introduced. Unmeasured water and sewerage charges will continue to be billed at 50% of the full charge.
The charges are published in the Company's Scheme of Charges available on www.niwater.com/watercharges or by writing to
NI Water, PO Box 2026,
Belfast, BT1 9DF.

Account Management

In the course of developing relationships with non-domestic customers and the business community, NI Water is reviewing its Account Management Strategy. Alongside the existing Key Account service for large customers, we are aware of the need to focus more attention on small/medium enterprises, particularly in the current economic climate. During 09/10, we will assess the potential for Account Management development in the course of reviewing the NIW Business Operating Model.

Metering programme

We have continued a programme of installing meters on new properties with first time connections to the water supply system in 08/09. The proportion of non-domestic properties which are metered has increased to 78%.

In 09/10 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 currently generate a charge or bills.

Codes of Practice
Priority Services Codes of Practice

In January 2009 NI Water launched its 'Priority Services' Codes of Practice. This initiative delivers a range of extra services for customers that have a disability, are elderly, have a serious medical condition or need extra help for any other reason. The company now holds a register of all customers who would like to be classified as 'Priority' and benefit from extra services.

Customer water supply issues and sewer flooding

Water supply and sewer flooding remain key areas of focus. NI Water played a major role in responding to severe flooding which affected a large number of areas throughout Northern Ireland in August 2008. NI Water dealt with a small though significant number of supply interruptions in 2008/09 involving above average numbers of properties and restoration times. The Company instigated its Major Incident Plan Procedures in response to these incidents. NI Water has continued to develop three systems during 2008/09 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 objective for 2008/09 was to continue with the development of the DG2 Register to take account of areas where watermains rehabilitation had occurred and by carrying out a substantive pressure logging programme. The number of properties on the DG2 Register at 31 March 2008 was 10,321 and as a result of the work undertaken in 2008/09 the number of properties on the Register at 31 March 2009 has been reduced to 5,770.

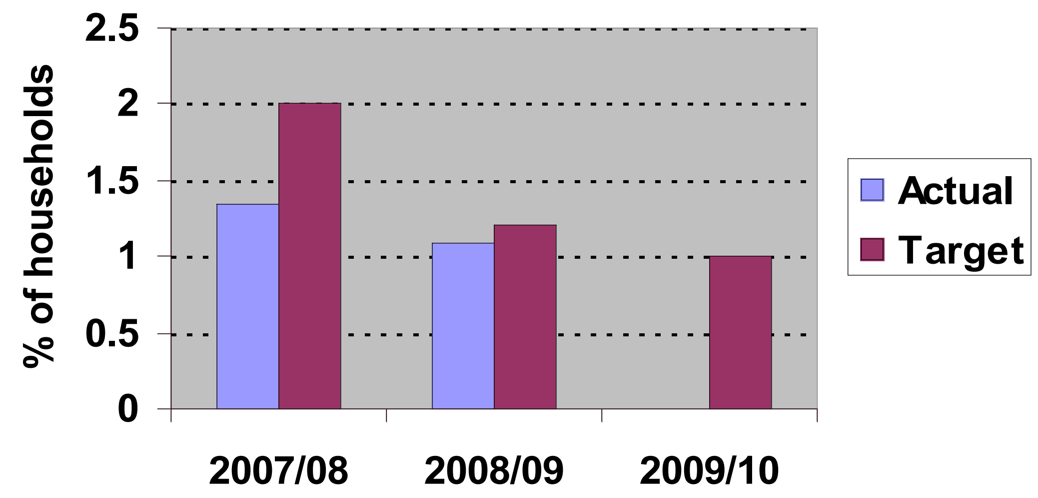
DG3 Register of Properties Affected by Supply Interruptions

The performance against our 2008/09 KPI on the percentage of connected properties experiencing interruptions in excess of 6 hours is shown in **Figure 4**. The 12 and 24 hour year end targets have been exceeded, mainly as a result of an unplanned interruption at Rasharkin in July 2008, a difficult mains repair to a bridge crossing on the Ballyhill Road and the much publicised trunk main burst at Portaferry in March 2009. A further series of unplanned interruptions in August 2008 brought on by the exceptional rainfall and subsequent ground movement, has also impacted heavily on yearly performance against these targets.

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. Further work to accelerate DG5 is planned.

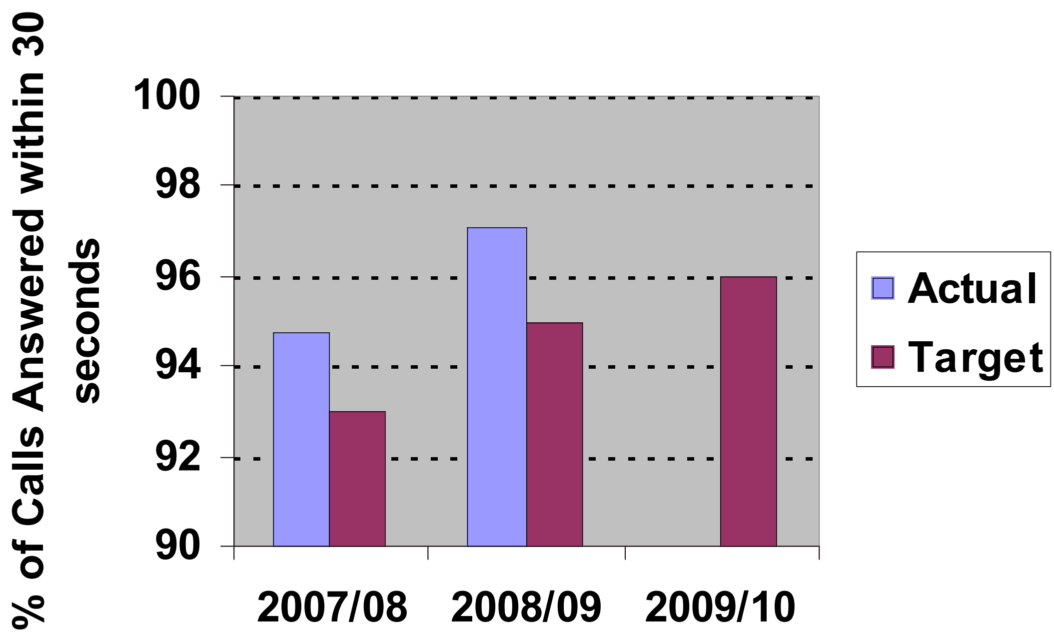
Figure 4 – Supply Interruption >6 hours



Customer contact

NI Water dealt with a large number of customer calls in 2008/09 arising from a number of factors including the severe flooding in August 2008. On the weekend of this flooding ten times the volume of expected calls were received. The performance against our 2008/09 KPI on telephone contact is shown in **Figure 5**.

Figure 5 - Telephone Contact



The rollout of Toughbook devices to Field Operatives in Wastewater and Water Supply - August 2008

CASH...

Efficiencies

NI Water delivered £17.5m of operating cost efficiencies from a 2007/08 base and we are making progress towards a £70m capex efficiency saving over the three year SBP period. 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 integrate customer contact and operational systems; and

- improved procurement of goods and services.

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

- Programme of value engineering to limit scope of capital projects while ensuring delivery of required outputs;

- Improved procurement of capital projects, e.g. bundling of 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. A full listing of the accounting policies can be found in the notes to the financial statements.

Financial results

The Company's profit and loss account as presented on page 47 is summarized in **figure 6** below:

Turnover was £331.6m for the year to 31 March 2009 (31 March 2008 £297.7m). Included in turnover was £267.5m (2008; £253.4m) in subsidies from the Department for Regional Development ("DRD") - the remainder being measured and unmeasured 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 2009/10. The final decision on domestic charging for 2010/11 and beyond has not yet been taken by the Northern Ireland Executive.

Figure 6 – Summary Profit and Loss Account

	2008/09 £m	2007/08 £m
Turnover	331.6	297.7
Operating profit	69.4	63.9
Net interest payable and other finance charges	(20.1)	(7.1)
Profit before tax	49.3	56.8
Taxation	(13.8)	(15.8)
Profit after tax	35.5	41.0
Dividend	-	(34.0)
Retained profit	35.5	7.0

Profit on ordinary activities before interest for the year was £69.4m. Operating costs in 2008/09 of £262.2m were impacted by a number of factors including inflationary pressures on power costs and the extensive Business Improvement Programme. The tax charge for the year was £13.8m. The effective tax rate for the year to 31 March 2009 was 28.0% (2007/08 27.7%). A dividend of £35m was declared, approved and is due to be paid in August 2009. In 2007-08 because the dividend of £34m was approved before year-end it was included in the financial statements for that year although not paid until May 2008.

Capital Structure

The balance sheet at 31 March 2009 as presented on page 48 is summarized in **figure 7.**

Net assets increased by 5.4% to £730.9m. The main movements in the balance sheet items were increases in fixed assets of £341.4m relating to our commitment to investment in the Capital Works Programme offset by increases in net debt. The Company net debt figure was £433.2m at 31 March 2009 (£249.6m at 31 March 2008). Gearing increased from 30.7% to 38.5% reflecting the draw down of loans under the Unsecured Loan notes 2027 Instrument.

Figure 7 – Summary Balance Sheet

	Assets £m	Liabilities £m	31 March 2009 Net Assets £m	31 March 2008 Net Assets £m
Fixed assets	1,435.6	-	1,435.6	1,094.2
Other current assets and liabilities	32.0	(132.3)	(100.3)	(111.8)
Other non current assets and liabilities	-	(146.1)	(146.1)	(27.9)
Deferred tax	-	(31.0)	(31.0)	(16.8)
Pension asset	5.9	-	5.9	5.6
Total before net debt	1,473.5	(309.4)	1,164.1	943.3
Net debt	-	(433.2)	(433.2)	(249.6)
Total as at 31 March 2009	**1,473.5**	**(742.6)**	**730.9**	**693.7**
Total as at 31 March 2008	1,190.9	(497.2)	693.7	

Cash flows and debt

Operating activities generated a net cash inflow of £134.1m (2008: £143.4m). Net cash outflows of £20.4m (2008: £7.4m) related to returns on investment and servicing of finance. This includes interest costs of £18.0m (2008: £9.6m), interest receivable of £1.8m (2008: £2.2m) and interest element of finance lease payment £4.2m (2008: £0m). Net investing activities used £263m (2008: £234.8m). Dividends paid during the year totalled £34.0m in respect of the previous financial 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 2009 was £433.2m (2008: £249.6m). The increase in net debt was financed through an increase in net financial liabilities due after one year. 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 Offer Rates ("LIBOR").

Treasury policies and objectives

Funding and treasury risk management functions are managed centrally by the Treasury function within the Finance and Regulation Directorate of NI Water.

During the year Treasury policies for NI Water were adopted by the Board. The Treasury policy provided for the establishment of the NI Water Treasury Forum. The Forum operates as an advisory body to the Board and the Executive team. It performs a review and oversight role for Treasury policies, proposals and the operations of the Treasury function. It also provides a means for approving transactions in accordance with authority delegated from the Board.

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 2009/10, 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.

Atypical operating expenditure items

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

Figure 8 – Atypical and reorganisational operating expenditure items

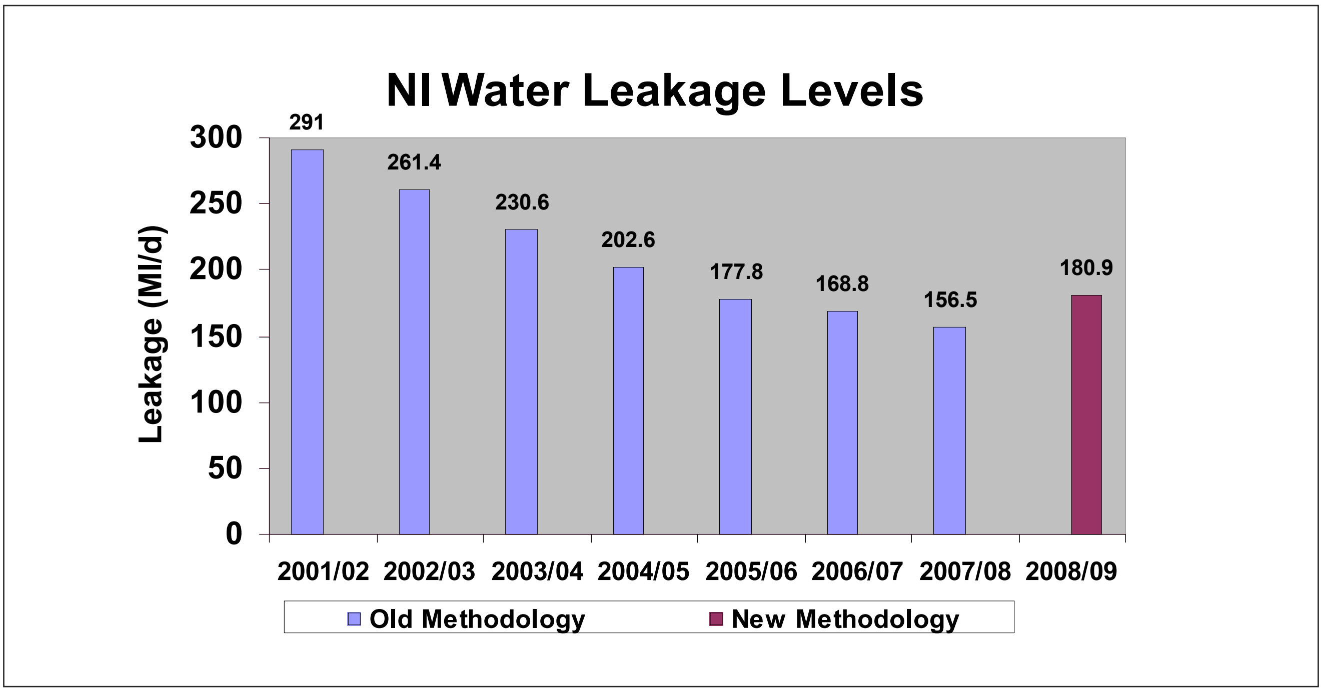
	2008/09 £'000	2007/08 £'000
Business Improvement Programme	8,421	8,115
Voluntary Early Retirement scheme	11,681	4,564
Increase in environmental and public liability/contractual provisions	900	3,520
Total	21,002	16,199

Reducing Leakage is a main priority for NI Water through the use of both old (Listening Stick) and new technologies - April 2009

Leakage

From 2001/02 to 2007/08 the amount of leakage lost from the distribution system has been reduced by over 134 Ml/d. During this period the same methodology was used to assess the annual level of leakage. For the 2007/08 year the average amount of leakage lost was reported as 156.5 Ml/d but we recognised that there was uncertainty with various components of the water balance methodology which is used to calculate leakage.

Figure 9 – Leakage



As a follow on from the 2008 Annual Information Return the company commenced a substantial programme of work over a two year period to resolve the level of uncertainty with the reported level of leakage. We indicated that there would be a material difference in the reported level of leakage as a result of the work being undertaken and this was acknowledged by our Regulator. The first phase of this work is included in this year's reported leakage figure. As a result of this work the reported level has been rebased and the figure for AIR09 is 180.9 Ml/d. We considered that the target of 146Ml/d is no longer applicable. We will review future targets with the Regulator.

The step change in reported leakage is attributed to a number of factors including changes to the methodolgy for the assessment of various components of the water balance, with the company adopting current industry best practice and use of company specific data and information.

Throughout the year work continued in finding and fixing leaks. It proved very challenging to maintain leakage levels during this years prolonged and particularly cold winter. Additional resources were assigned and the company brought together a task force consisting of NI Water staff and our contractors.

We will continue to work in an open and transparent manner with all of our stakeholders to complete the review of the water balance methodology and agree future leakage targets for the company.

PEOPLE...
BUILDING THE CAPABILITY TO DELIVER

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

HR Business Partner Model

Human Resources further embedded the HR Business Partner model in support of business improvement and transformational change to achieve business objectives. The Human Resource Business Partner model was embraced by all Directorates as an enabler to deliver the final year of the three year Strategic Business Plan.

The following programmes and initiatives were undertaken across the HR Directorate and the business in 2008/09;

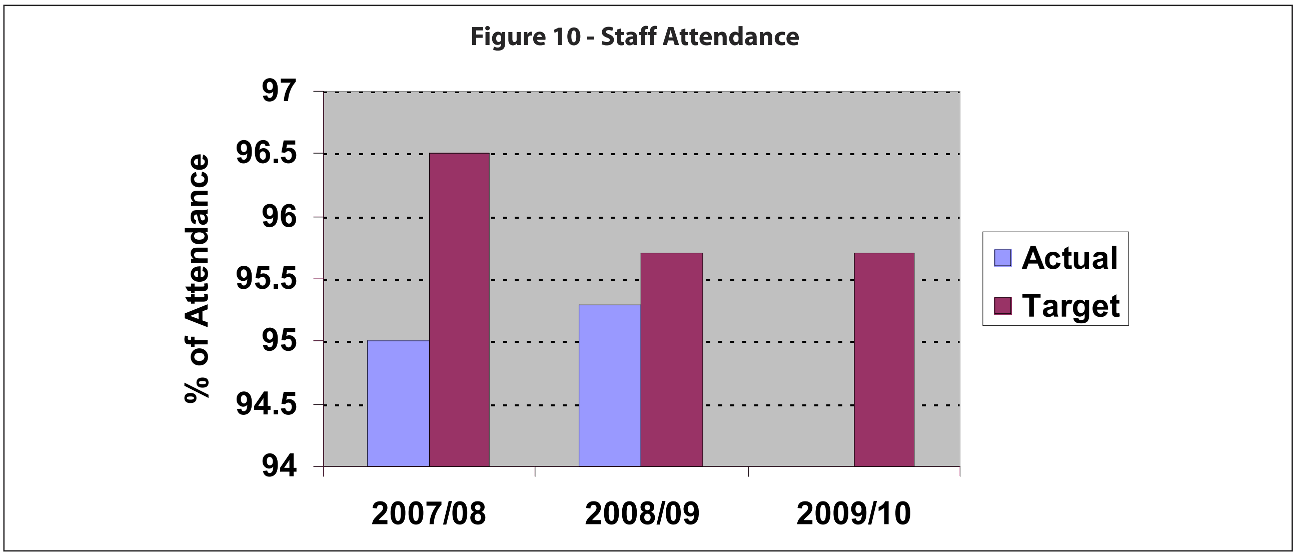
- People Development Leadership and Coaching programmes for Executive team and middle management;
- Carrying out an employee survey to monitor progress on employee engagement;
- Communication of a new organisational pay and grading structure which drives a high performance culture;
- Implementation of an integrated HR IT and Payroll system delivering a significantly improved level of service;
- Supporting the business in implementing a significant body of organisational restructuring through intensive consultation with the Water Group of Trade Unions;
- The design and implementation of 2 new company severance schemes;
- Successful completion of the 2008 People Efficiency Programme;
- Introduction and implementation of the new NI Water Performance Management System to support a high performance culture; and
- Introduction and launch of the NI Water Graduate and Modern Apprentice Programmes.

Performance against our staff attendance KPI target for 2008/09 has been impacted by the transformational change programmes being experienced by the organisation, as shown in **figure 10**. NI Water continues to support our employees through transformational change with an extensive employee assistance programme.
The following key activities will be undertaken in 2009/10:

- Development and implementation of a customer focused Human Resource Delivery Model to align HR Strategy to business objectives;
- Further People Development programmes;
- Further survey on employee engagement and motivational fit;
- Further development of the HR IT and Payroll system and processes to support HR efficiencies;
- Development and launch of an accessible and user friendly HR intranet site;
- Development of an NI Water Employee Handbook incorporating the new NI Water suite of Human Resource policies; and
- Launch and completion of the 2009/10 People Efficiency Programme.

Our employees

NI Water went through a substantial people efficiency programme resulting in excess of 300 staff reductions facilitated by voluntary early release schemes. Human Resources will continue to support staff going through this change process with our portfolio of Employee Assistance initiatives and seek to constantly enhance communication during further staff reductions.



People Efficiency Programme

The three year Strategic Business Plan outlines an employee workforce complement of 1,412 for 2009/10 (**figure 11**) representing a targeted reduction from the 2008/09 year of 304 Full Time Equivalents ('FTE's').

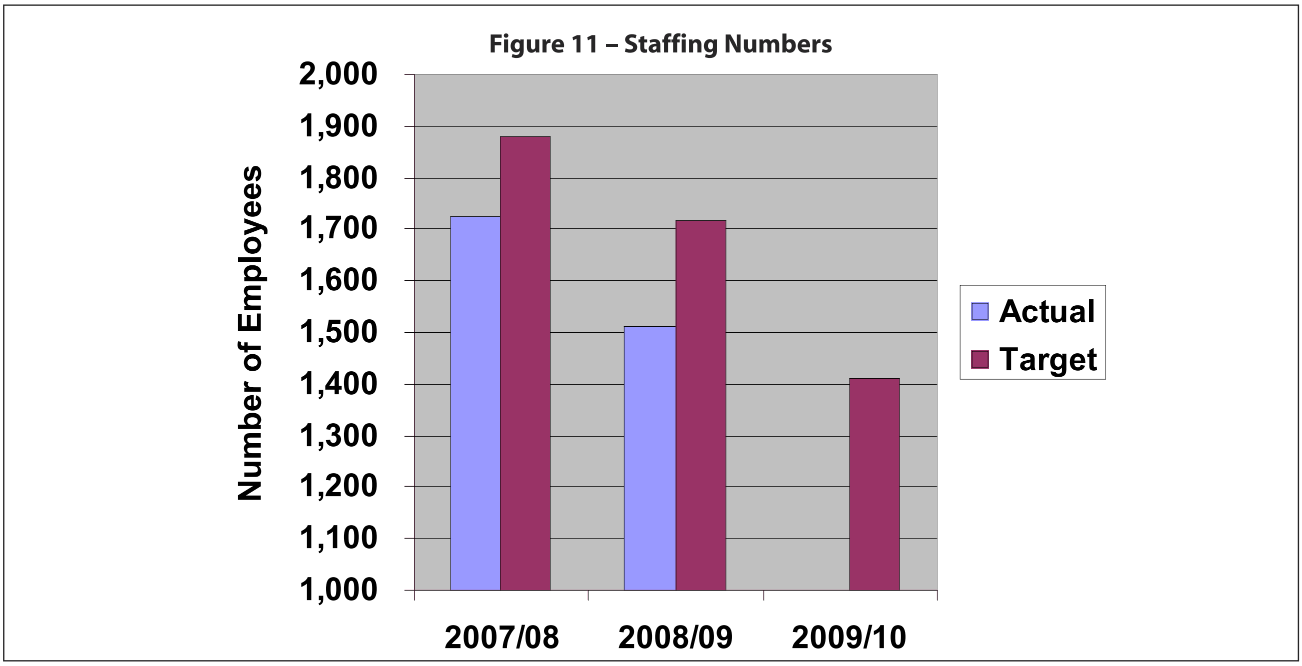
Three directorates (Operations / Engineering Procurement / Customer Services) implemented new operating models and all employees in the affected grades and areas were offered up to 350 redeployment opportunities across not only those directorate's restructuring but across the company.

NI Water has always maintained that through the application of best practice pre –redundancy measures such as redeployment, voluntary release, post suppression etc, this reduction in employee complement would be limited to no more than 200 employees affected.

All voluntary early release programmes were completed on time and significantly within budget.

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.



The Launch of NI Water's H&S Manual - May 2008

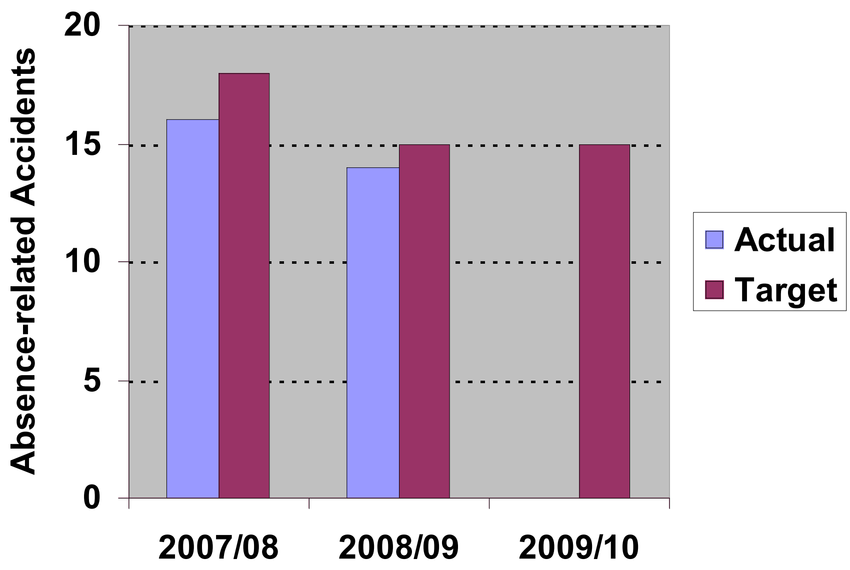
Health and Safety

The recommendations from the 2007/08 Royal Society for the Prevention of Accidents ("RoSPA") Health and Safety Capability Report were substantially completed and subjected to Internal Audit procedures by March 2009. NI Water has now been accredited by IOSH to deliver, in-house, the RoSPA recommended training for all employees and this process is now on-going. Additionally, NI Water has been accredited by HSENI to run and award certified First Aid at Work courses to staff and contractors.

A strategic action plan has been developed to deliver against NI Water "Zero Accident Ambition". The new Health and Safety Manual, Policies and Procedures have assisted in reducing further the accident frequency rate within the Company, with the H&S Key Performance Indicator target showing a 12% reduction against a target of 6%.

New targets have been set for 2009/10 in line with Regulatory Reporting requirements and for the PC10 period which equate to, at least, a 7% year-on-year reduction in workplace accidents. The 2009/10 KPI target is set at not more than 12 RIDDOR accidents. These targets support the NI Water "Zero Lost Days Accident Ambition". A near-miss reporting target has also been agreed for NI Water for 2009/10 and the lessons learned from near misses will also continue to assist NI Water to reduce accidents in the workplace through positive pro-active action.
NI Water was awarded the "RoSPA 2009 Silver Award for Occupational Health and Safety" after examination in 10 Key Performance areas by the Awards Adjudication Panel. This award recognises NI Water's commitment to raising the standards of health and safety management performance, involving the workforce and improving Health and Safety skills and awareness at all levels within the organisation.

Figure 12 – Health and Safety



COMPLIANCE...
INVESTING FOR THE FUTURE

Drinking water compliance, at the customer tap, showed a marked improvement on the previous year with a 2008 outturn of 99.49% Mean Zonal Compliance ("MZC"). Work continued throughout 2008 to minimise chlorine levels and residence times in distribution. The Alpha PPP works were commissioned during 2008 and will contribute to improvement of the MZC figure during 2009. The improved treatment processes will mean that adverse weather conditions and deteriorating raw water quality will have less of an impact on drinking water quality than in previous years.

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 continue to close that gap over coming years.

Water Resources

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 Water Resource Strategy / Water Resource Management Plan implementation continues and emphasises the need to rationalise existing uneconomic water sources and concentrate on the sources that can meet our needs cost effectively and reliably.

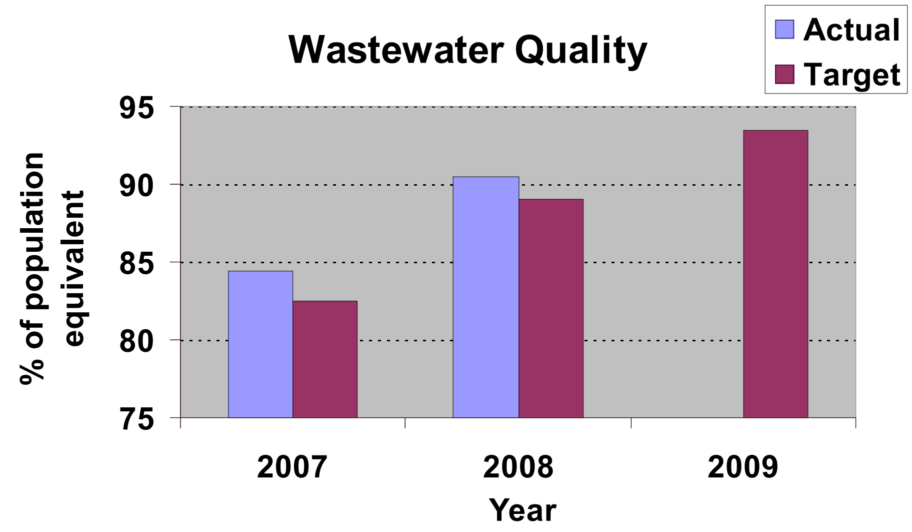
Water Quality

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 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. 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.

Wastewater

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 achieving a level of 92% compliance with the Urban Waste Water Treatment Regulations in 2008. The impact of the capital works programme is also reflected in improved compliance with the Water Order Consents issued by the NIEA. In 2008 NI Water achieved its best ever performance with 88% of the larger Wastewater Treatment Works compliant with consent conditions and over 90% of the Population equivalent served by compliant 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 commenced a programme to address the underinvestment in small rural Wastewater Treatment Works.

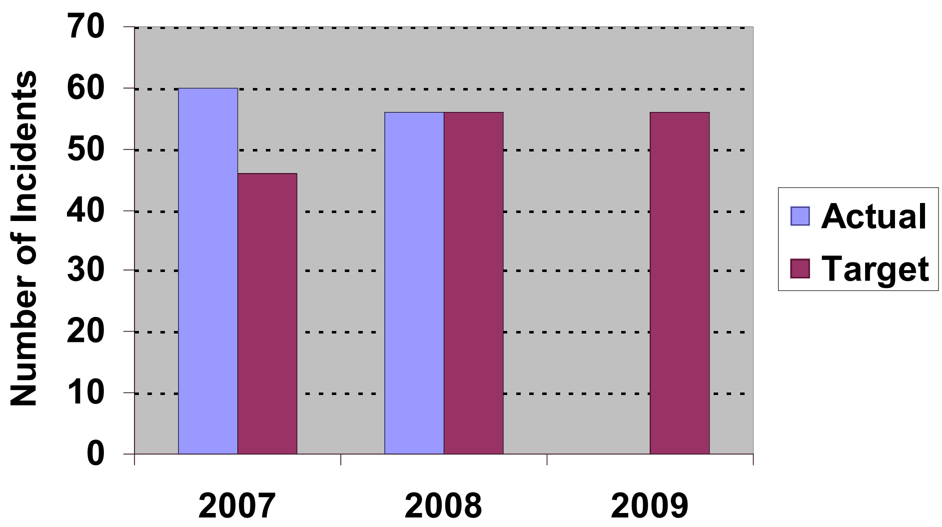
Figure 13 – Wastewater quality (% of population equivalent) served by compliant Wastewater Treatment Works



EC Bathing Waters

During 2008 the NIEA monitored 24 identified bathing waters (under the European Bathing Water Directive) throughout the bathing season. The Directive contains two standards on the quality of bathing water: a mandatory standard; and a more stringent guideline standard. In 2008, 23 of the 24 identified bathing waters in Northern Ireland met the mandatory standard, and 10 met the higher guideline standards.

Figure 14 – Pollution Incidents



Pollution Incidents

The legacy of underinvestment in Waste Water installations and infrastructure has proved a major difficulty in achieving the pollution incidents KPI.

For 2007 the target was originally set as a percentage reduction on the average number of incidents over the period from 2004 to 2006. Taking into account annual fluctuations in pollution incident numbers and that NI Water was subject to the full NIEA regulatory regime after losing crown immunity on 1st April 2007, experience has demonstrated that this methodology was not appropriate.

The 2008 KPI was set at 56 medium and high severity incidents, a reduction on the number recorded in 2007 and the target was achieved (see **figure 14**). Only one of these incidents was of high severity. More than 70% of high and medium severity incidents can be attributed to the sewerage system.

The target for 2008 was set on the basis of the experience of 2007 in being subject to the full NIEA regulatory regime and heightened customer awareness. Training sessions were undertaken in April 2008 on NI Water's Pollution Response Procedures to increase staff awareness of these in dealing with all issues associated with pollution incidents.

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 £234m of capital engineering projects were delivered during 2008/09. This included the continuation of projects previously started along with the commencement of new projects. 28% of this capital programme was targeted at water projects while 72% was targeted at wastewater projects. This split is presented in **figure 15**.

15 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.

Improvements to the water treatment works at Lough Bradan (Omagh area) and Carmoney (Londonderry Area) also commenced in 2008/09. Improvements were made to the watermain infrastructure in a number of areas throughout Northern Ireland.

Work continued on improving the wastewater network at various locations including Cookstown and Portadown. Significant progress was also made on the Belfast Sewers Project.

£212m of capital projects are scheduled for delivery during 2009/10. This includes the continuation of projects previously started along with the commencement of new projects. In total 35% of the capital programme is targeted at water projects while 65% is targeted at sewerage projects. Work will continue to ensure compliance with the appropriate European Community Directives and meet the regulatory discharge consent standards. Major projects which commenced in 2008/09 will continue throughout 2009/10.

It is planned to target improvements to the watermain infrastructure in a number of areas throughout Northern Ireland. Some 14 zones are programmed for work. 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. Work will continue on improving the sewer network in Londonderry and Draperstown as well as the flagship Belfast Sewers Project.

Cost of the Capital Expenditure Programme

A breakdown of the total capital expenditure for 2008/09 and 2009/10 is shown in **figures 15** and **16**. 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

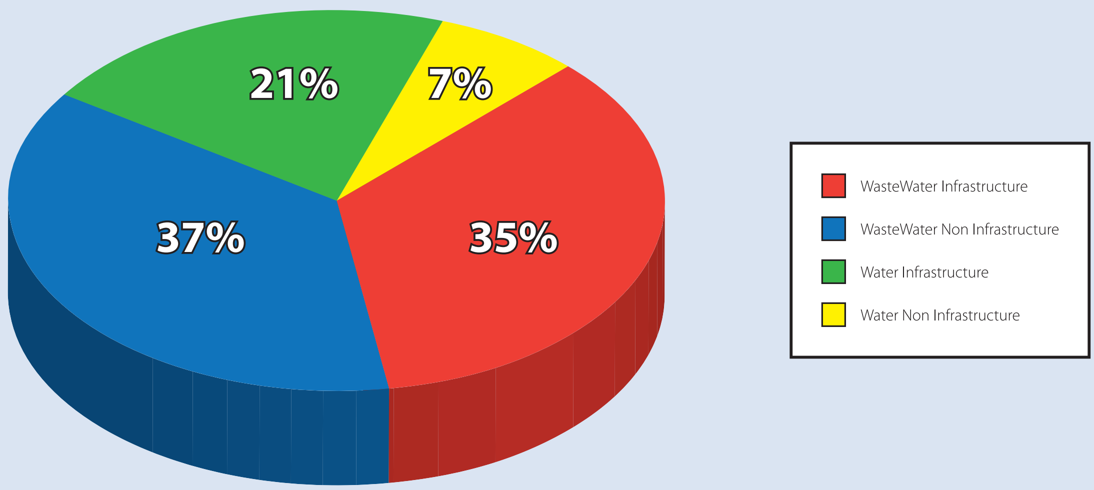
NI Water has continued to enhance its service to customers and improve its infrastructure management through good operational management and investment in technology. This was achieved through sustained attention to works, particularly those operating beyond their designed capacity, and by carrying out a number of activities throughout 2008/09.

Asset Management

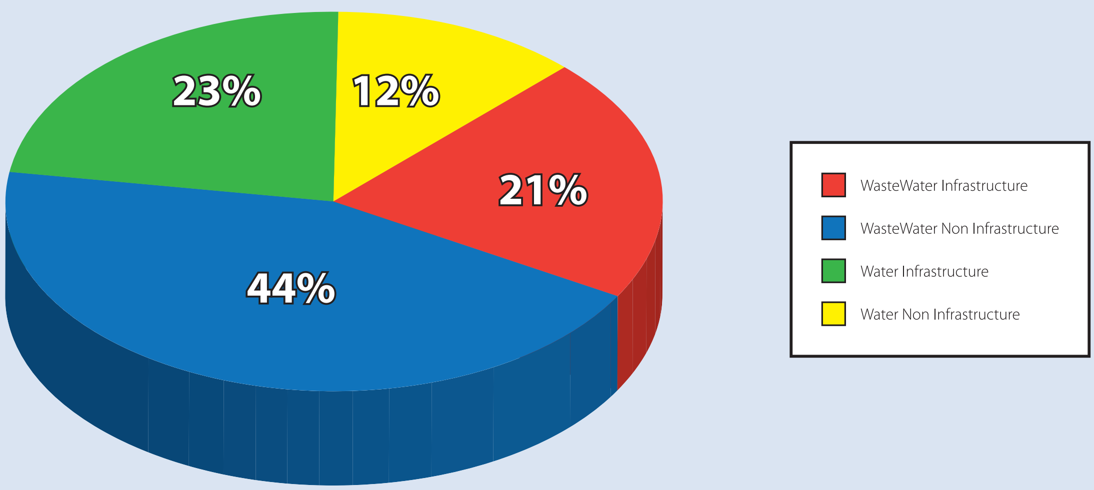
The implementation of Asset Management systems and preparation of the third Northern Ireland Asset Management Plan ("NIAMP3") are a central part of the regulatory arrangements for NI Water.

Figure 15 and 16 - Capital Works Programme 2008/09 and 2009/10

2008/09



2009/10



Water Analysis, Westland Laboratory, Belfast - June 2009

Public Private Partnerships

PPPs - NI Water continues to deliver its Public Private Partnership (PPP) programme to upgrade water and wastewater facilities and sludge disposal.

Alpha Project - delivered the infrastructure upgrades necessary to provide a bulk potable water supply to NI Water in excess of 396 Ml/d, representing just under 50% of NI Water's total drinking water demand.

Omega Project – upgrade of Wastewater Treatment Works included in the Omega project represents a population equivalent of approximately 300,000, reflecting approximately 20% of Northern Ireland's current wastewater treatment capacity, and 100% of its sludge disposal capacity.

Business Improvement Programme... Starting the changes

The One Programme consisted originally of some 44 projects designed around our balanced scorecard and was expected to deliver capital expenditure efficiencies of £81m and operating expenditure efficiencies of £54m by 2009/10, both figures based on a 2003/04 baseline. Within these projects it was also expected that NI Water would achieve a more customer-centric business capable of matching the performance levels of the water industry in the rest of the UK, as well as delivering a regulated business compliant with environmental, economic and legislative requirements.

Two years have now passed and the business has moved forward so that NI Water is now well down the road of being a standalone and sustainable utility which has modernised and embraced commercial principles. Since the commencement of the re-organisation of the former NI Water Service into the present NI Water the following has been achieved:

- Delivery of a Mobile Work Management system;
- Delivery of a new HR and Payroll IT system, as well as a new Performance Management System;
- Implementation of an improved Procurement and Contract Management system;
- Delivery of a centralised stores function;
- Centralisation of the Operations administration support to remove duplication of effort and effect a reduction in staff numbers required;
- Implementation of an Asset Management Model along with the associated Asset Registers and Asset Management processes; and
- The reduction of employee numbers in line with the SBP from around 1,900 in 2007 to just over 1,600 at 31 March 2009.

The bulk of the One Programme will complete over the next year, although some elements will continue beyond and NI Water expects that there will be a continuing improvement to the business, its processes and the service it provides over several years to come. The main targets for the next twelve months will be:

- Delivery of a robust Benefits Realisation methodology;
- Development of employee terms and conditions, as well as developing the skills and abilities of our personnel;
- Continuing improvement in our Operations functions;
- The introduction of a data warehouse and the integration of computer systems on a company wide basis, as well as the upgrading of technology solutions to streamline the administration and regulatory functions;
- Further developments in our financial systems and costing procedures.

The One Programme has already successfully delivered significant change and is expected to complete one of the biggest organisational transformations in the UK and Ireland in the next twelve months. This is something of which we can all be very proud.

Chris Mellor

Chris Mellor
Chairman and Acting Chief Executive
30 June 2009

CORPORATE RESPONSIBILITY

NI Water is committed to building and nurturing positive relationships with customers, community, stakeholders and our employees. NI Water realise the critical importance of keeping both internal and external audiences fully informed of issues that may impact upon them including developments within the organisation, investments in infrastructure, supply issues and other factors of public interest. This is carried out through a positive and proactive engagement strategy, using the full range of traditional outlets, but increasingly also through new communications media.

NI Water is committed to working responsibly within the communities that it serves. Over the past 12 months NI Water has made a substantial commitment to developing a corporate responsibility programme, which concentrates on building environmental excellence, embracing and promoting corporate citizenship through education, and working towards becoming an employer of choice.

Recognition of how seriously responsibility is taken towards the environment has come through the award of ISO 14001 accreditation and through a series of awards for NI Water's capital investment programme, most notably Fofanny Water Treatment Works. Other environmental initiatives have included joint biodiversity projects with Ulster Wildlife Trust, Lough Neagh and Lower Bann Advisory Group at Moyola Foot, and Mourne Heritage Trust at our Silent Valley site.

Explaining NI Water's role in protecting the environment is a major ongoing priority, with significant resources dedicated to education. During the year NI Water representatives visited 111 schools reaching over 6,400 primary school children. This included visits by the NI Water mobile classroom (the Waterbus), classroom visits along with school visits to Silent Valley Education Centre, NI Water's Wastewater Heritage Centre and Water Treatment Works.

Supporting teachers at Key Stage 1 and 2, the NI Water education team provide fun and interactive instruction on the water cycle, the role of water for health and the need for water conservation. In line with a commitment to embrace emerging media, a fully interactive education microsite was developed and launched this year. This website supports the work of the NI Water team and is promoted to schools as another resource available in delivering the curriculum. NI Water also work with youth groups and third level institutions, facilitating visits to treatment works and providing instruction in what we are doing.

Building on the success of our work with children, this year we have also engaged with greater numbers of community organisations. Presentations to Help the Aged, Gateway Group, National Trust Regional Group and youth groups, have been well received and will represent a more prominent part of our activity going forward. External Community Events attended involved Eco Community Challenge, Green Living Fair 2009, Silent Valley Water for Life Days. We have worked with our partner IKEA to promote water conservation and to support World Water Day. Water conservation was promoted to the staff and visitors at 3 hospitals in the Southern Hospital Trust and by attending an Environmental Conference with our conservation stand.

Another of NI Water's primary responsibilities is to its own people. Throughout the last year NI Water has been tasked with very challenging efficiency targets, which has resulted in an unprecedented period of change for all employees. The company is proud to have a loyal and highly-skilled workforce and constantly seek to improve their working environment. The organisation is committed to improving the quality and quantity of communication with employees, with the establishment of a range of communications channels within the company. Reflecting the diverse locations of the workforce, this mix of communications channels includes a constantly updated intranet, a regular staff publication which was shortlisted for a CIPR Excellence Award in 2008, and a fortnightly telephone briefing aimed at those staff without regular access to a computer. These channels are used to keep staff fully informed about the change programme, opportunities for advancement within the company and other staff news.

During the last year NI Water also introduced an initiative aimed at improving the visibility of senior executives within the company. Through a series of open forum sessions the Executive Team have interacted directly with more than 600 staff across the business.

Given the level of public interest in water reform, within NI Water we work hard to continually improve the

NI Water's Education Team show local school children the basis of water treatment - May 2009

quality of interaction with our key stakeholders. These include the NI Water shareholder (the Minister for Regional Development), the Utility Regulator, the Consumer Council, the Drinking Water Inspectorate, the Environment Agency, the Assembly and the Regional Development Committee. Over the course of the last year, NI Water believe that progress has been made with each of these critically important organisations.

More generally, a concerted effort has also been made to engage positively with the entire political community. This activity has included attendance at party political conferences, briefings with each of the NI Assembly party groupings and presentations to all 26 local government authorities in Northern Ireland. This work will continue and NI Water is hopeful that it will provide the foundation for mature and productive interaction into the future.

NI Water is also conscious that in addition to being customers themselves, its political representatives play a role in representing other customers who are experiencing difficulties. To that end, the company is pleased to report on the success of its dedicated MLA phoneline, which ensures prompt access to answers for all representatives.

NI Water will continue to seek opportunities to help improve and deliver against its corporate responsibility objectives. This is seen as a business critical area as the company progresses into the next period.

DIRECTORS' REPORT

The Directors present their report, together with the audited financial statements for the year ended 31 March 2009.

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 2009 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 2 to 8);
- operational performance (refer to pages 9 to 31);
- financial performance (refer to pages 15 to 19);
- KPIs (refer to pages 6 to 7, 9 to 31 and pages 98 to 108);
- corporate responsibility (refer to pages 30 to 31);
- risks and uncertainties (refer to pages 38 to 40); and
- financial risk management objectives and policies (refer to pages 15 to 19 and pages 38 to 40).

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 £35m for the year ended 31 March 2009 (31 March 2008; £34m) was approved by the Shareholder upon the recommendation of the Board on 29 May 2009 and is due to be paid in August 2009 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2009.

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 Non Executive Chairman and Acting Chief Executive.

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 (CBE), 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) Non Executive Director.

Ruth was the former Group Corporate Affairs Director for National Grid Plc and has undertaken senior roles in the energy industries. She is a Non Executive Director of One North East (a regional development agency), NHS NE and renewable energy centre (NAREC), University of Northumbria and Chair of National Energy Action.

- Declan Gormley Non Executive Director (appointed 29 July 2008).

Declan is a former General Manager of Saxone (Ireland), UK Operations Director with British Shoe Corporation and most recently Managing Director of Ulster Weavers Apparel Ltd. He also currently holds the position of Deputy Chairman on the Action Renewables Board.

- Donald Price Non Executive Director (appointed 29 July 2008).

Donald is a former Chief Executive Officer (CEO) and Board Director of the Northern Bank, where he is currently a

N I Water Board of Directors - January 2009

Non Executive Director. A former Managing Director of NIR and the Belfast Telegraph, he is a Fellow of the Institute of Bankers and a Non Executive Director of Northern Ireland Tourist Board.

- Ronan Larkin* 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.

- George Butler* Director of Asset Management (Appointed Executive Director 25 November 2008).

George joined Water Service in April 2005 after over 20 years as a consultant, investor and regulator in the water sector, most recently with the economic regulator for England and Wales, Ofwat. George is responsible for Scientific Services, Asset Management and for dealing with the environmental regulator.

- Katharine Bryan*, Chief Executive (Resigned on 31 May 2008).

- Phil Barker*, Director of Operations (Resigned on 19 December 2008).

- Mark Ellesmere, 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).

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 pages 41 to 43 and in note 5 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 2009, was 33.2 days (2008: 31.5 days). The Company intends to

* Executive Directors

adopt a policy of payment within 10 days going forward in accordance with the Executive's policy.

Political and charitable contributions

The Company made no political donations nor did it incur any political expenditure during the year. The company donated £1,600 to Water Aid, its nominated charity, during the year.

Research and Development

NI Water invested £0.5m on research and development in 2008/09 (2007/08: £0.5m) (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. NI Water also employs research bodies directly to address specific business needs as required. 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.

Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2009, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the Company in order that the purposes of a special administration order could be achieved if such an order were made.

Regulation - 'cross directorships'

Directors and employees of NI Water may be Directors of related companies when this is in the best interests of NI Water, and where appropriate arrangements are in place to avoid conflicts of interest.

Disclosure of information to auditors

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

Auditor

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

By order of the Board

Mark Ellesmere
Company Secretary
30 June 2009

CORPORATE GOVERNANCE

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 2009 with the relevant Combined Code provisions.

Explanation of non compliance

The approval of the appointment of Chair of the Board, Executive and Non Executive Directors is the duty of the Minister. Katharine Bryan resigned as Chief Executive Officer of the Company on the 31 May 2008. As agreed with the Minister, Chris Mellor, in addition to his role as Chair of the Board, became the Acting Chief Executive.

For the period to 29 July 2008 the Board consisted of the Chair, who is also the Acting Chief Executive, two Non Executive Directors and two Executive Directors. The Minister then appointed Declan Gormley and Donald Price as two Non Executive Directors to the Board of NI Water. George Butler, Director of Asset Management, became an Executive Director. This brings the number of Executive and Non Executive Directors to the Board as two and four respectively. As a consequence, less than half of the Board are considered to be independent for the period to the 29 July 2008.

George Butler became an Executive Director on 25 November 2008.

Phil Barker resigned as Director of Operations and Executive Director on 19 December 2008. Since then the acting Director of Operations has attended the Board meetings as an observer.

The Board have now appointed a new Chief Executive Officer, Laurence Mackenzie, who will take up his post on 27 July 2009. Chris Mellor will revert to his Chairman's role only on this date. This will bring the Board membership to 5 Non Executive Directors and 3 Executive Directors.

The Board

Board structure

On 31 May 2008 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. As per the Combined Code, the Chairman upon appointment met 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. The Board recognises that the appointment of Donald Price and Declan Gormley on 29 July 2008 has greatly helped in discharging its responsibilities and is satisfied it has all of the necessary skills, experience and qualities to lead the Company throughout the financial year.

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 pages 32 and 33. 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 17**. 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.

Chris Mellor** - Acting Chief Executive (appointed 31 May 2008);

Katharine Bryan* - Chief Executive (resigned 31 May 2008);

Ronan Larkin* - Finance and Regulation;

Phil Barker* - Operations (resigned 19 December 2008);

George Butler* - Asset Management;

Mark Ellesmere - Head of Legal and Company Secretary;

Trevor Haslett - Engineering Procurement;

William Duddy - Billing and collection;

Liam Mulholland - Customer Services;

Pauline Shepherd - Human Resources;

David Gilmour - Commercial;

Alistair Jinks - Business Improvement;

Pat McParland - Communications;

Allan Jones - Chief Information Officer;

David Dangerfield - Operations; and

Darren Mawhinney - Head of Strategy.

Procedures are in place that 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 actions have been identified and reported to the Board. The membership of all Board committees is set out below:

Audit Committee

- John Ballard** (Chair – to November 2008 but remained as a member);
- Donald Price** (Chair – from December 2008); and
- Chris Mellor (was a proxy member to November 2008)** (1)

Nomination and Remuneration Committee

- Declan Gormley**(Chair – from March 2009)
- Ruth Thompson** (Chair – to March 2009 but remained as a member);
- John Ballard**.

Asset Investment Committee

- John Ballard** (Chair);
- Chris Mellor**; and
- Declan Gormley **.

Risk and Reputation Committee

- Ruth Thompson**(Chair);
- John Ballard** (to January 2009);

* Executive Director

** Non Executive Director

• Donald Price** (From January 2009); and

• Declan Gormley** (From January 2009).

(1) Until the appointment of two Non Executive Directors on the 29 July 2008, Chris Mellor, who as Chair of the Board cannot be considered as independent, has been attending Audit Committee meetings as a proxy member to fulfil the minimum quorum of two members.

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

Audit Committee

Only independent Non Executive Directors may serve on the Committee. The Committee meets with the Company's external auditor ("the Auditor") at least four times a year. By invitation of the Committee other individuals such as the Chairman (from December 2008 onwards), Company Secretary, Director of Finance and Regulation, Head of Corporate Governance and Head of Internal Audit will normally be in attendance for all or part of those meetings. The Chair of the Audit Committee has recent and relevant financial experience.

The Committee and the Auditor also hold separate meetings without the attendance of executive management. In their assessment of the independence of the Auditor, the Committee receives annually in writing details of relationships between the Auditor 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 Auditor's fees in respect of the audit of the financial statements and regulatory accounts of the Company, and considers the adequacy of the Auditor's proposed audit plan and approves the letter of engagement. A formal policy, which includes fee limits, has been adopted for non audit services. The Audit Committee has primary responsibility for making a recommendation to the Board on the appointment, reappointment and removal of the Auditor. 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 2009 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 fraud, theft and irregularities and reports of whistleblowing cases that deal with allegations from employees and outsiders relating to breaches of the Company's Code of Business Ethics.

Nomination and Remuneration Committee

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. Further information on the activities of the Nomination and Remuneration Committee is given in the Directors' Remuneration Report on pages 41-43. 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 normally meets four times a year. The Committee is chaired by John Ballard, Independent Non Executive Director. 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 normally meets four times a year. The Committee is chaired by Ruth Thompson, Independent Non Executive Director. 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.

Figure 17 - Attendance at Board and Principal Committees' meetings (2008/09)

	Board Meeting	Audit Committee	Risk & Reputation Committee	Nomination & Remuneration Committee	Asset Investment Committee
Chris Mellor	13	5	2	7	3
John Ballard	12	7	2	10	4
Ruth Thompson	10	*	3	10	*
Declan Gormley[1]	8	*	1	1	1
Donald Price[1]	8	2	2	*	*
Ronan Larkin	12	7	*	*	3
George Butler[2]	11	*	*	*	4
Katharine Bryan[3]	1	1	*	1	*
Phil Barker[4]	9	*	2	*	3
Total number of meetings in year	**13**	**7**	**4**	**11**	**4**

[1] Appointed Non Executive Directors 29 July 2008

[2] Appointed Executive Director 25 November 2008, attended as an observer before that

[3] Resigned on 31 May 2008

[4] Resigned on 19 December 2008

* Not required to attend this committee

Meetings

Details of the Board and Board Committees' meetings attended by each Director during the financial year are shown on **figure 17**.

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

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 41 to 43.

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, carried out an evaluation of the performance of its committees. Each Director and the Company Secretary answered a questionnaire on his/her perception of the composition, operation and effectiveness of the committees and on the performance of the Chairpersons of the Board and its committees.

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 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 also reviews key risks on a monthly basis 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 2009 and up to the date of the approval of the Annual Report.

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.

1. Delay in confirmation of future status of NI Water and significant decisions that could impact on its financial viability.

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 Executive on how the services should be structured in future. Their recommendations will have significant short and long term implications on the Company's operational and financial performance.

2. The failure of our assets or our inability to carry out critical operations could have a significant impact on our financial position.

NI Water had inherited an aged and under-funded asset base upon transfer in April 2007. We may suffer a major failure in our assets which could arise from an inability to deliver the capital investment programme for our businesses or to maintain the health of our systems. This could cause a significant 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, sabotage or other international acts. These factors may also physically damage our business or otherwise significantly affect corporate activities and, as a consequence, affect the results of our operations and financial position.

3. The results of our operations depend on a number of factors relating to business performance, including the ability to deliver on the anticipated cost and efficiency savings as set out in our Strategic Business Plan.

Earnings from subsidy and regulated water business will be affected by our ability to meet our agreed Key Performance Indicators (KPI's) and regulatory targets. NI Water has established and is in the process of implementing a Business Improvement Programme (One Programme) to make improvements and deliver efficiencies over the next three to five years. The continued funding of the entire One Programme is crucial to implementing the required improvements and efficiency savings.

4. 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. Amongst other things, these establish standards for drinking water and discharges into the environment which affect our operations. However, these laws and their enforcement have tended to become more stringent over time, both in relation to their requirements and in the levels of proof required to demonstrate compliance.

While we believe we have taken account of the future capital and operating expenditure necessary to achieve and maintain compliance with current changes in laws and regulations, it is possible that new or stricter standards could be imposed or current interpretation of existing legislation amended. This would increase the Company's operating costs or capital expenditure by requiring changes and modifications to its operations in order to comply with any new environmental laws and regulations.

5. Subject to decision of the NI Executive, any future system to deliver new domestic billing arrangements will have a significant financial reputational implication for NI Water.

The company is continuing to work closely with shareholders to ensure that the implications of any emerging proposals are fully analysed, managed and communicated.

Experience of the original preparations for the introduction of domestic billing by NI Water (subsequently deferred from 1 April 2007) indicated that a minimum lead time of seven months would be required to reactivate similar arrangements and longer if a radically new Scheme is devised.

6. The robustness and accuracy of data that is used for our Annual Reporting is continually being improved.

NI Water is continually making improvements in its systems and controls to capture the information for reporting purposes. 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.

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);
- (Declan Gormley chair from March 09); and
- John Ballard.

All the members of the Nomination and Remuneration Committee are Non Executive Directors considered to be independent. Refer to page 35 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 (Until 31 May - from then on Acting 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. 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 base salary and a performance related bonus designed to incentivise Directors and align their interests with those of the Shareholder. The remuneration consists of the following elements:

• Base salaries

Base salaries were reviewed in 2007 for each Executive Director and Executive, and were determined with regard to the market median for equivalent roles in the UK utility sector. Base salaries are reviewed annually taking into account inflation. Every three years the salaries are reviewed against relevant benchmark information. Fees paid to Executive and Non Executive Directors are shown at **Figures 18** and **19** below.

• Annual Bonus

The Board agreed with our Shareholder an annual bonus scheme for 2008/09 which is within NICS Senior Civil Service guidelines. Payment is based on the achievement of specific Corporate and Personal targets.

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

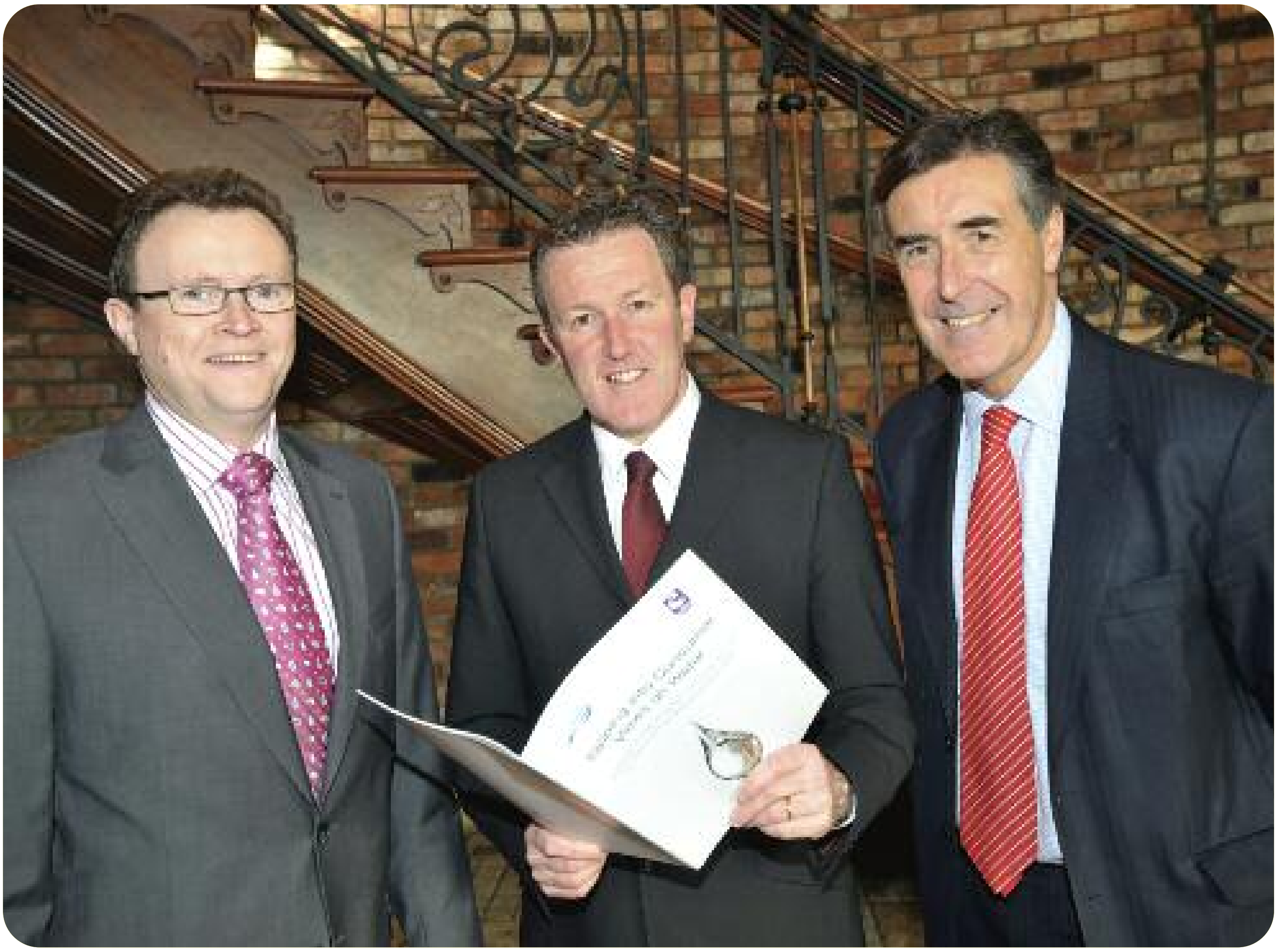
The Chairman receives a fee of £833 per day and the Non Executive Directors receive a fee of £750 per day.

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 on the following pages are details of the pension benefits to which each of the Executive Directors is entitled. The accrued pension entitlement is the amount that the Executive Director would receive if he / she retired at the end of the year. The increase in the accrued entitlement is the difference between the accrued benefit at the year end and that at the previous year end. The pension benefits outlined below are provided through the NI Water defined benefit pension scheme and are a "mirror image" in terms of benefits and contributions of the Principal Civil Service Pension Scheme (NI) as at 01 April 2007. The Executive



Ronan Larkin, Minister Conor Murphy and Chris Mellor at the launch of the CCNI Customer Survey - May 2009

Directors who transferred to NI Water automatically became members of the new scheme and in January 2009 took a decision whether to transfer their benefits accrued in the Principal Civil Service Pension Scheme (NI) to the NI Water scheme. Pension benefits due to Executive and Non Executive Directors are shown at **Figures 20** and **21** below. Further details on pensions are provided in note 25 to the financial statements and on page 17.

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 5 to the financial statements.

Chris Mellor

Chris Mellor
Chairman and Acting Chief Executive
30 June 2009

Figure 18 - Fees paid to Executive Directors

	Salary and Allowances 2008/09 £'000	Benefits in kind 2008/09 (to nearest £100)	Total 2008/09	Total 2007/08
Chris Mellor (Chairman and Acting Chief Executive from 1 June 2008)	159*	Nil	159	73
Katherine Bryan (Chief Executive - resigned 31 May 2008)**	280	Nil	280	154
Phil Barker (resigned 19 December 2008)	88	Nil	88	114
Ronan Larkin	108*	Nil	108	102
George Butler (appointed 25 November 2008)	36*	Nil	108	-

Figure 19 - Fees paid to Non-Executive Directors

	2008/09 Salary and Allowances 2008/09 £'000	Benefits in kind 2008/09 (to nearest £100)	Total 2008/09	Total 2007/08
John Ballard	24	Nil	24	29
Ruth Thompson	25	Nil	25	25
Declan Gormley	12	Nil	12	Nil
Donald Price	12	Nil	12	Nil
Rose Hynes	Nil	Nil	Nil	5

Figure 20 - Pension benefits for Executive Directors

	Accrued pension at age 60 as at 31 March 2009 £'000	Related lump sum as at 31 March 2009 £'000	Real increase in pension at age 60 £'000	Real increase in lump sum at age 60 £'000
Katherine Bryan (Chief Executive - resigned 31 May 2008)	3	-	3	-
Phil Barker (resigned 19 December 2008)	6	-	4	-
Ronan Larkin	6	-	4	-
George Butler (appointed 25 November 2008)	7	-	5	-

Figure 21 - Pension (CETV) benefits for Executive Directors

	CETV at 31 March 2009 £'000	CETV at 31 March 2008 £'000	Real increase in CETV less Director's contribution £'000	Director's contribution £'000
Katherine Bryan (Chief Executive - resigned 31 May 2008)	73	51	21	1
Phil Barker (resigned 19 December 2008)	97	24	70	3
Ronan Larkin	100	23	73	4
George Butler (appointed 25 November 2008)	128	27	97	4

* Does not include bonus for 2008/09 as they were not paid by the year end.
** Includes £162k relating to compensation for loss of office.

Nature Trail, Official Opening, October 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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.

ET Visibility, One Team Working, Pauline Shepherd - December 2008

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 AUDITOR'S 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 2009 which comprise the Profit and loss account, the Balance sheet, the Cash flow statement, the Statement of total recognized 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 Auditor

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 45. 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 and reflect the relevant provisions of the Water and Sewerage Services (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 2009 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 Auditor, Belfast
3 July 2009

Profit and Loss Account for the year ended 31 March 2009

	Note	2008/09 £000	2007/08 £000
Turnover	*2*	**331,572**	297,717
Total operating costs	3	**(262,168)**	(233,831)
Operating profit	4	**69,404**	63,886
Other interest receivable and similar income	*7*	**1,836**	2,236
Other finance income	*8*	**137**	420
Interest payable and similar charges	*9*	**(22,092)**	(9,741)
Profit on ordinary activities before taxation		**49,285**	56,801
Tax on profit on ordinary activities	*10*	**(13,762)**	(15,756)
Profit for the financial year		**35,523**	41,045

All the results shown derive from continuing activities.
There is no material difference between the profits as reported and on a historical cost basis for the year and the previous year.

Balance Sheet at 31 March 2009

	Note	2008/09 £000	2008/09 £000	2007/08 £000	2007/08 £000
Fixed assets					
Tangible assets	12	1,435,496		1,094,094	
Investments	13	106		106	
			1,435,602		1,094,200
Current assets					
Stocks	14	1,901		2,405	
Debtors	15	30,058		30,715	
Cash at bank and in hand		24,314		58,005	
		56,273		91,125	
Creditors: amounts falling due within one year	16	(132,311)		(144,954)	
Net current liabilities			(76,038)		(53,829)
Total assets less current liabilities			1,359,564		1,040,371
Creditors: amounts falling due after more than one year					
Loans and other borrowings	17	(457,560)		(307,560)	
Other creditors	18	(125,333)		(12,798)	
			(582,893)		(320,358)
Provisions for liabilities	19		(51,682)		(31,891)
Net assets excluding pension asset			724,989		688,122
Pension asset	25		5,941		5,619
Net assets including pension asset			730,930		693,741
Capital and reserves					
Called up share capital	20		500,000		500,000
Statutory distributable reserve	21		171,690		171,690
Profit and loss account	21		59,240		22,051
Shareholder's funds			730,930		693,741

These financial statements were approved by the Board of Directors on 30 June 2009 and were signed on its behalf by:

Chris Mellor

Chris Mellor, Chairman and Acting Chief Executive
30 June 2009

Cash Flow Statement for the year ended 31 March 2009

	Note	2008/09 £000	2007/08 £000
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		**69,404**	63,886
Depreciation charges		**52,055**	48,027
Amortisation of deferred grants and contributions		**(407)**	(353)
(Profit)/Loss on sale of fixed assets		**(94)**	31
PPP residual asset credits (see note 24)		**(1,520)**	(524)
Decrease in stocks		**504**	4
Decrease in debtors		**653**	2,692
Increase in creditors		**11,470**	26,352
Adjustment for non cash FRS 17 movements		**2,004**	3,248
Net cash inflow from operating activities		**134,069**	143,363
Returns on investments and servicing of finance	*26*	**(20,365)**	(7,385)
Capital expenditure and financial investment	*26*	**(263,009)**	(234,776)
Equity dividends paid to shareholders		**(33,956)**	-
Cash (outflow) before management of liquid resources and financing		**(183,261)**	(98,798)
Management of liquid resources	*26*	**35,000**	(54,000)
Financing	*26*	**149,570**	157,560
Increase in cash in the period		**1,309**	4,762

Statement of Total Recognised Gains and Losses for the year ended 31 March 2009

	2008/09 £000	2007/08 £000
Profit for the financial year	**35,523**	41,045
Actuarial gain recognised in the pension scheme	**2,314**	21,374
Deferred tax arising on gains in the pension scheme	**(648)**	(6,412)
Total recognised gain relating to the financial year	**37,189**	56,007

Reconciliation of Movements in Shareholder's Funds for the year ended 31 March 2009

	2008/09 £000	2007/08 £000
Profit for the financial year	**35,523**	41,045
Dividends on ordinary shares	**-**	(33,956)
Retained profit	**35,523**	7,089
Other recognised gains and losses relating to the year (net)	**1,666**	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	**37,189**	693,741
Opening shareholder's funds	**693,741**	-
Closing shareholder's funds	**730,930**	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 financial statements have been prepared on a going concern basis not withstanding the net current liabilities at 31 March 2009. The Directors are content to adopt this approach for the following reasons:

- A market for services for the provision of water and sewerage services will continue to exist and a licence is in place with the NIAUR, that is underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, that designates Northern Ireland Water Limited as the sole Water Undertaker for the Province.

- The DRD provides substantial revenue funding to the business and will continue to do so until domestic charging is introduced;

- The DRD also provides a capital loan facility to fund the capital expenditure for the business.

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.

(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). The Interim Reporter also carried out a further review for the Company during the year on the renewals expenditure required to maintain the future operating capability of the networks assets. 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 courses 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.

(d) Grants, contributions and capital subsidies

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

Capital subsidies are available for infrastructure charges and requisitioning of mains 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 DRD to Northern Ireland Water Limited on 1 April 2007 included the transfer of a number of PFI contracts in place 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 assets investments consist of ordinary shares and loan stock in WRc PLC (see note 13). These are valued at 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 surplus is recognised in full (net of deferred tax).

The movement in the scheme surplus 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.

(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 by 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 contracts.

(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.

(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 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.

3 Operating Costs

	2008/09 £000	2007/08 £000
Raw materials and consumables	**13,816**	14,720
Other operating costs*	**137,015**	119,017
Staff Costs (notes 5 and 6)	**70,776**	63,296
Own work capitalised (note 6)	**(10,993)**	(10,907)
(Profit)/Loss on sale of fixed assets	**(94)**	31
Depreciation and other amounts written off tangible assets	**52,055**	48,027
Amortisation of deferred grants and contributions	**(407)**	(353)
Total operating costs	**262,168**	233,831

*Other operating costs comprise:

	2008/09 £000	2007/08 £000
Power	**31,972**	21,900
Rates	**12,501**	11,688
Hire and contracted services	**70,881**	63,864
Other operating costs	**21,661**	21,565
Total other operating costs	**137,015**	119,017

4 Operating profit

	2008/09 £000	2007/08 £000
Profit on ordinary activities before taxation is stated after charging		
Hire of other assets - operating leases	**40**	50
Auditors' remuneration:		
Audit of statutory financial statements	**75**	75
Audit of prior year financial statements	**25**	-
Audit of Regulatory financial statements	**24**	24
	124	99
Amounts receivable by the auditors and their associates in respect of:		
Other services relating to taxation	**91**	60
Accounting and regulatory advice	**9**	30
	100	90
Total fees paid to the auditors	**224**	189

5 Remuneration of Directors

The Directors who served on the Board during the financial year are shown in the remuneration report. Directors' emoluments comprising gross salary, bonuses [3], pension contributions, allowances and non executive Directors' fees can be summarised as follows:

	2008/09	2007/08
	£000	£000
Katharine Bryan [1] (Chief Executive - resigned 31 May 2008) [4]	**280**	154
Chris Mellor [1] (Chairman and Acting Chief Executive from 1st June 2008)	**159**	73
Phil Barker [1] (resigned 31 December 2008)	**88**	114
Ronan Larkin [1]	**108**	102
George Butler [1] (from 25 November 2008)	**36**	-
John Ballard [2]	**24**	29
Ruth Thompson [2]	**25**	25
Declan Gormley [2] (from 29 July 2008)	**12**	-
Donald Price [2] (from 29 July 2008)	**12**	-
Rose Hynes [2] (resigned 19 July 2007)	**-**	5
	744	502

[1] Executive Director

[2] Non Executive Director

[3] Salaries do not reflect bonuses in respect of 2008/09 as they were not paid by the year end

[4] Includes £162k relating to compensation for loss of office

5 Remuneration of Directors - continued

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 2009 £000	Accrued pension at age 60 as at 31 March 2008 £000	Increase in pension related to PCSPS 'transfer-in' £000	Increase in pension related to NIW scheme £000	Total Increase in pension at age 60 £000
Katharine Bryan (Chief Executive - resigned 31 May 2008)	**3**	3	-	-	-
Phil Barker (resigned 31 December 2008)	**6**	2	3	1	4
Ronan Larkin	**6**	2	2	2	4
George Butler	**7**	2	3	2	5

	Transfer value at 31 March 2009 £000	Transfer value at 31 March 2008 £000	Increase in transfer value related to PCSPS 'transfer-in' £000	Increase in transfer value related to NIW scheme less Director's contributions £000	Director's contributions £000	Total Increase in transfer value £000
Katharine Bryan (Chief Executive - resigned 31 May 2008)	**73**	51	-	21	1	22
Phil Barker (resigned 31 December 2008)	**97**	24	46	24	3	73
Ronan Larkin	**100**	23	43	30	4	77
George Butler	**128**	27	62	35	4	101

The accrued pension 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, took part in an exercise in February 2009 to decide if they wanted their accrued benefits in the PCSPS(NI) transferred to the Company's scheme. This exercise is now complete and the figures above include the outcome of this exercise.

6 Staff numbers and costs

	No. of employees 2008/09	No. of employees 2007/08
The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:		
Directors	**7**	3
Non industrial staff	**851**	796
Industrial staff	**742**	874
	1,600	1,673

	2008/09 £000	2007/08 £000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	**50,089**	45,528
Social security costs	**3,500**	3,280
Other pension costs	**17,187**	14,488
	70,776	63,296

An amount of £8,796k (2008: £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 (these staff costs capitalised are included in the £10,993k shown in Note 3 as 'own work capitalised').

7 Other interest receivable and similar income

	2008/09 £000	2007/08 £000
Bank interest	**1,836**	2,236

8 Other finance income

	2008/09 £000	2007/08 £000
Expected return on pension scheme assets	**3,828**	6,402
Interest on pension scheme liabilities (see note 25)	**(3,691)**	(5,982)
	137	420

9 Interest payable and similar charges

	2008/09 £000	2007/08 £000
On bank loans and overdrafts	**13**	29
On all other loans	**17,886**	9,712
On PPP finance lease (see note 24)	**4,193**	-
	22,092	9,741

Of the above amount £17,886k (2008: £9,712k) was payable to DRD in relation to loan notes issued (see note 17 'Loans, other borrowings and financial instruments' and note 28 'Related party disclosures').

10 Taxation

	2008/09 £000	2007/08 £000
Analysis of charge in period		
Deferred tax		
Origination/reversal of timing differences	**14,209**	17,957
FRS 17 pension adjustments	**(523)**	(848)
Adjustment in respect of previous years	**76**	-
Effect of changes in tax rate	**-**	(1,353)
Total deferred tax charge	**13,762**	15,756
Tax charge on profit on ordinary activities	**13,762**	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 28% (2008: 30%). The differences are explained below.

	2008/09 £000	2007/08 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**49,285**	56,801
Current tax at 28% (2008: 30%)	**13,800**	17,040
Effects of:		
Expenses not deductible for tax purposes	**140**	69
Capital allowances for period in excess of depreciation	**(26,323)**	(18,286)
Other timing differences	**523**	848
Trade losses carried forward	**11,860**	329
Total current tax charge	-	-

11 Dividends

	2008/09 £000	2007/08 £000
The aggregate amount of dividends comprises:		
Dividends in respect of the year recognised as liability at the year end (2008: 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 nil (2008: £33,956k).

12 Tangible fixed assets

	Land and Buildings	Infrastructure assets**	Operational Assets*	Vehicle plant and equipment	Assets in the course of construction	**Total**
	£000	£000	£000	£000	£000	**£000**
Cost						
At 1 April 2008	70,446	637,255	184,308	9,247	240,858	**1,142,114**
Additions	36	(3,606)	116,375	-	281,341	**394,146**
Disposals	(532)	-	(1)	(545)	8	**(1,070)**
Transfers	4,447	130,185	117,655	1,158	(253,445)	**-**
At 31 March 2009	74,397	763,834	418,337	9,860	268,762	**1,535,190**
Depreciation						
At 1 April 2008	(655)	(35,668)	(9,386)	(2,311)	-	**(48,020)**
Charge for year	(755)	(34,611)	(14,680)	(2,009)	-	**(52,055)**
On disposals	-	-	-	381	-	**381**
At 31 March 2009	(1,410)	(70,279)	(24,066)	(3,939)	-	**(99,694)**
Net Book Value						
At 31 March 2009	**72,987**	**693,555**	**394,271**	**5,921**	**268,762**	**1,435,496**
At 31 March 2008	69,791	601,587	174,922	6,936	240,858	1,094,094

Included in the total net book value of assets in course of construction is £3,351k (2008: £1,831k) in respect of the residual interest assets in off balance sheet Private Finance Initiative contracts (see note 24). These assets are not depreciated.
Included in the total net book value of operational assets is £111,962k (2008: £Nil) in respect of assets held under Private Finance Initiative contracts. Depreciation for the year on these assets was £1,156k (2008: £Nil).
* Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.
**Infrastructure assets are shown net of capital contributions

	2008/09 **£000**	2007/08 £000
The net book value of land and buildings comprises:		
Freehold	**71,677**	69,093
Leasehold - long and short term	**1,310**	698
Total	**72,987**	69,791

13 Fixed asset investments

	2008/09 £000	2007/08 £000
8% unsecured loan stock (15,278 units at £1 each)	**15**	15
Ordinary 'A' shares (15,278 at £1 each)	**91**	91
	106	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 market value at 31 March 2009 was £10.16 per ordinary share (2008 £6.72). The loan stock is unlisted.

14 Stocks

	2008/09 £000	2007/08 £000
Raw materials and consumables	**1,831**	2,269
Work in progress	**70**	136
	1,901	2,405

The estimated replacement cost is not materially different to the book value stated above.

15 Debtors

	2008/09 £000	2007/08 £000
Trade debtors	**8,033**	5,674
Other debtors	**1,780**	2,300
VAT receivable	**6,974**	15,136
Accrued income	**13,046**	7,528
Prepayments	**225**	77
	30,058	30,715

16 Creditors: amounts falling due within one year

	2008/09 £000	2007/08 £000
Payments received on account	**1,510**	1,717
Trade creditors	**18,237**	26,750
Taxation and social security	**1,160**	118
Other creditors	**3,378**	1,981
Accruals and deferred income	**104,564**	80,049
Dividend payable	**-**	33,956
Deferred grants and contributions	**574**	383
PPP finance lease (see note 24)	**2,888**	-
	132,311	144,954

17 Loans, other borrowings and financial instruments

	2008/09 £000	2007/08 £000
Capital Loan Notes	**457,560**	307,560
	457,560	307,560
Borrowings are repayable as follows:		
In more than five years	**457,560**	307,560
	457,560	307,560

The Capital loan notes (denominated in Sterling) have been issued under the Instrument constituting £1,280,200k 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%.

18 Creditors: amounts falling due after more than one year

	2008/09 £000	2007/08 £000
Private Finance Initiative obligation (see note 24)	**108,390**	-
Other creditors	**2,418**	3,422
Deferred grants and contributions	**14,525**	9,376
	125,333	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:

	2008/09 £000	2007/08 £000
Within one year	**-**	-
Within the second to fifth years	**2,298**	1,532
Over five years	**12,227**	7,844
	14,525	9,376

The Private Finance Initiative obligation included within creditors due after more than one year falls due as follows:

	2008/09 £000	2007/08 £000
Within one year	**-**	-
Within the second to fifth years	**12,856**	-
Over five years	**95,534**	-
	108,390	-

19 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**
At 1 April 2008	5,684	1,036	7,503	693	16,760	215	**31,891**
New provisions	1,520	-	600	-	14,284	3,876	**20,280**
Utilised	-	(19)	-	(266)	-	-	**(285)**
Unwinding of discounted amount	-	-	-	11	-	-	**11**
Amounts released unused	-	-	-	-	-	(215)	**(215)**
At 31 March 2009	**7,204**	**1,017**	**8,103**	**438**	**31,044**	**3,876**	**51,682**

The Public liability and Employer liability claims at 31 March 2009 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 and Liability Assessment of the Company's services 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 2009 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	2,129	400	1,500	241	-	3,876	**8,146**
In the second to fifth years	5,075	617	6,603	197	31,044	-	**43,536**
Over five years	-	-	-	-	-	-	**-**
	7,204	**1,017**	**8,103**	**438**	**31,044**	**3,876**	**51,682**

The estimated payment of provisions at 31 March 2008 was:

	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.

The elements of deferred taxation are as follows:

	2008/09 £000	2007/08 £000
Difference between accumulated depreciation and amortisation and capital allowances	**42,953**	17,067
Other timing differences	**(11,909)**	(307)
Deferred tax liability	**31,044**	16,760

19 Provisions for liabilities - continued

FRS 17 pension deferred tax impact can be shown as follows (see also note 25)

	2008/09 £000 Excluding FRS 17	2008/09 £000 FRS 17	**2008/09 £000 Total**	2007/08 £000 Excluding FRS 17	2007/08 £000 FRS 17	2007/08 £000 Total
Opening liability / (asset)	16,760	2,185	**18,945**	-	(3,223)	(3,223)
Current year deferred tax charge/ (credit) to profit and loss account	14,209	(523)	**13,686**	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)
Prior year deferred tax charge to profit and loss account	75	-	**75**	-	-	-
Current year deferred year tax charge to the Statement of Total Recognised Gains and Losses	-	648	**648**	-	6,412	6,412
Closing liability	31,044	2,310	**33,354**	16,760	2,185	18,945

20 Called up share capital

	2008/09 £000	2007/08 £000
Authorised	**500,000**	500,000
500m Ordinary shares of £1 each	**500,000**	500,000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000
Shares classified in Shareholder's funds	**500,000**	500,000

21 Reserves

	2008/09 Statutory distributable reserve £000	**2008/09 Profit and loss account £000**	2007/08 Statutory distributable reserve £000	2007/08 Profit and loss account £000
At beginning of year	**171,690**	**22,051**	-	-
Profit for the year	**-**	**35,523**	-	41,045
Dividends on shares classified as Shareholder's funds	**-**	**-**	-	(33,956)
Statutory distributable reserve*	**-**	**-**	171,690	-
Actuarial gain recognised in the pension scheme	**-**	**2,314**	-	21,374
Deferred tax arising on gains in the pension scheme	**-**	**(648)**	-	(6,412)
	171,690	**59,240**	171,690	22,051

*as part of the formation of Northern Ireland Water Limited on 1 April 2007 a statutory distributable reserve of £171.69m was established as permitted under the Water and Sewerage Services (Northern Ireland) Order 2006.

	2008/09 £000	2007/08 £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:		
Relating to pension asset	**(5,350)**	5,260
Other elements	**64,590**	16,791
Profit and loss reserve including pension asset	**59,240**	22,051

22 Contingent liabilities and contingent assets

The Company is disputing liability in some Public liability cases arising from the Water Service. The estimate of the financial effect is £1,000k (2008 £317k). It has been estimated that there is less than a 50% chance of these cases leading to a loss. If such a loss should arise there is no possibility of any reimbursement. In addition the company is disputing a number of claims from contractors amounting to £8.6 million which the directors consider there is less than a 50% likelihood of them leading to a loss.

A summary of Contingent liabilities is set out below.

	2008-09	2007-08
	£	£
Public liability	**1,000,000**	316,638
Contractor claims *	**8,600,000**	-
Employer liability	**-**	862,670
Flooding claims unlikely to succeed	**-**	35,000
	9,600,000	1,214,308

Debenture to DRD

DRD has entered into deeds of guarantee with the concessionaires of the Alpha and Omega PPP contracts to guarantee all future liabilities of NI Water under these contracts. NI Water has entered into an environmental indemnity with DRD and The Department of the Environment in respect of any future environmental liabilities arising for NI Water. NI Water has registered a debenture to counter indemnify DRD in relation to these three guarantees. Under this debenture NI Water charges to DRD by way of first floating charge and as a continuing security for the payment and discharge of the secured liabilities all of NI Water's rights to and title and interest on property, assets rights and revenues. No provision has been made in the accounts in respect of this guarantee as the conditions under which the liability would crystallise have not been breached.

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 16) and are only recognised in income when customers are in default of agreed conditions. The Company has also received a number of paper performance bonds issued by banks and the National House Building Council ("NHBC") on behalf of customers in relation to requisition of water mains and sewerage services. These are not recognised in the financial statements. These items are 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 are likely to be presented to the issuing party in respect of non-performance by the customer.

* Associated with some of the contractors' claims, disclosed as contingent liabilities above, there are counterclaims the likely settlement value of which are uncertain and therefore are not disclosed.

23 Commitments

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

	2008/09 £000	2007/08 £000
Contracted	**101,858**	188,869

(b) In addition to the above at the end of the financial year the Company had entered into commitments amounting to £153,340k (2008: £22,716k)

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

	2008/09 Other £000	2007/08 Other £000
Operating leases which expire:		
Within one year	**29**	-
In the second to fifth years inclusive	**5**	49
	34	49

24 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 Waste Treatment Works with a capital cost in the region of £11 million. The contract is for 25 years with an end date of 30 April 2024.

The 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 2008-2009 an amount of £226k (2008: £221k) was credited to the profit and loss account for this year. These transactions gave rise to a residual interest asset of £1,754k (2008: £1,528k) in Kinnegar at year end. This asset has been included in Fixed Assets (see Note 12).

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 2008-2009 an amount of £1,294k (2008: £303k) was credited to the profit and loss account for this year. These transactions gave rise to a residual interest asset of £1,597k (2008: £303k) in Omega at year end. This asset has been included in Fixed Assets (see Note 12).

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 £840k. There are no annual payments under this contract.

24 Private Finance Initiative commitments - continued

Charge to the profit and loss account and future commitments

In 2008-09 the charge to the profit and loss account in respect of Kinnegar unitary payments was £1,234k (2008: £1,692k). The gross unitary payment was £1,460k (2008: £1,913k) with £226k (2008: £221k) capitalised in relation to the residual interest asset. The future estimated annual amount payable under the Kinnegar off-balance PFI agreement is £2,345k (2008: £2,220k).

In 2008-09 the charge to the profit and loss account in respect of Omega unitary payments was £8,083k (2008: £1,179k). The gross accrued amount for Omega was £9,377k (2008: £1,482k) with £1,294k (2008: £303k) capitalised in relation to the residual interest asset. The future estimated annual amount payable under the Omega off-balance PFI agreement is £23,180k (2008: £19,692k).

The future estimated total annual amount payable under off-balance PFI agreements is £25,525k (2008: £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 2009-2010, analysed by the period during which the commitment expires is as follows:

	2008/09	2007/08
	£'000	£'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	**2,345**	2,220
Expiry within 21 to 25 years	**23,180**	8,121

24 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 £111 million. The service provision has commenced roll-out from November 2008. The contract is for 25 years with an end date of 29 May 2031.

Charge to the profit and loss and future commitments

This transaction is treated as an on balance sheet PFI transaction and the 2008-09 unitary charge payment was accounted for in the following components:

- The charge to the profit and loss account in respect of the service element of the Alpha contract was £1,289k (2008: nil).
- The charge to the profit and loss account in respect of the finance charge element of the Alpha unitary payments was £4,193k (2008: nil).
- An amount of £430k (2008: nil) of the unitary charge was debited to the balance sheet as it related to the repayment of the notional finance lease underpinning this on-balance sheet transaction.

The future estimated first full year (2009-2010) annual amount payable under the Alpha on-balance PFI agreement is £17,931k. 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 2009-2010, analysed by the period during which the commitment expires is as follows:

	2008/09	2007/08
	£'000	£'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	-	-
Expiry within 21 to 25 years	**17,931**	-

Guarantees to Alpha and Omega concessionaires.

See Note 22 - Contingent liabilities and contingent assets - for details of guarantees in place for future liabilities under Alpha and Omega contracts.

25 Pension Scheme

Defined benefit pension scheme

The Company operates a final salary pension scheme, the Northern Ireland Water Limited Pension Scheme, which is open to all employees. Members had the option of transferring their pensionable service from the Principal Civil Service Pension Scheme (Northern Ireland) [PCSPS (NI)] The option exercise closed at the beginning of February 2009 and a bulk transfer will be paid in respect of liabilities transferred. The member take-up rate of opting to transfer their PCSPS(NI) accrued benefits to the company scheme was approximately 20%. The 2007-2008 company financial statements assumed a take-up rate of 50%. The disclosures reflect the outcome of the options exercise, by reflecting the obligation to take on members' PCSPS(NI) accrued rights in the liabilities and making provision for the expected amount of the bulk transfer payment in the assets.

The associated cash transfer from the PCSPS(NI) to the Company scheme is expected to take place in the 2009/2010 financial year. An employer contribution rate of 29.3% (2008: 29.3%) of pensionable pay applied during the year. The Company expects to contribute approximately £11.5m to the Scheme in 2009/10 excluding any additional contributions arising to fund past service costs.

The major assumptions used by the actuary in this disclosure:

	Conditions at 31.3.09	Conditions at 31.03.08
Rate of increase in salaries	**4.50%**	5.00%
Rate of increase in pensions in payment and deferred pensions	**3.50%**	3.50%
Discount rate	**6.75%**	6.00%
Inflation assumption	**3.50%**	3.50%
Bulk transfer take-up	**20.00%**	50.00%

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 was carried out as at 1 April 2008. Mortality assumptions used for the FRS 17 disclosures imply current life expectancies at age 60 (in years) are 26.3 for a male (non-industrial grade) and 24.6 for a male (industrial grade) currently aged 60 and 28.5 for a male (non- industrial grade) and 26.6 for a male currently aged 40 (industrial grade) . The current life expectancies (in years) are 29.3 years for a female (non-industrial grade) and 27.5 years for a female (industrial grade) currently aged 60 and 31.4 for a female (non-industrial grade) and 29.5 (industrial grade) currently aged 40.

The weighted-average target asset allocations at the year-ends were as follows:	**Total Scheme assets at 31/3/2009**	Total Scheme assets at 31/3/2008
Asset category		
Equities	**17.50%**	4.00%
Bonds	**17.50%**	4.00%
Bulk transfer	**65.00%**	92.00%
	100.00%	100.00%

Scheme assets and liabilities

	Scheme at 31 March 2009	Estimated bulk transfer at 31 March 2009	**Total at 31 March 2009**	Total at 31 March 2008
	£000	£000	**£000**	£000
Equities	11,739	-	**11,739**	5,424
Bonds	11,739	-	**11,739**	5,424
Bulk transfer	-	44,117	**44,117**	118,896
Total market value of assets	23,478	44,117	**67,595**	129,744
Actuarial value of liabilities	(23,919)	(35,425)	**(59,344)**	(121,940)
Surplus / (deficit) in the scheme - pension asset / (liability)	(441)	8,692	**8,251**	7,804
Related deferred tax asset / (liability)	124	(2,434)	**(2,310)**	(2,185)
Net pension asset / (liability)	(317)	6,258	**5,941**	5,619

25 Pension Scheme - continued

Expected rates of return on the assets in the scheme

	Scheme conditions at 31 March 2009	Estimated bulk transfer conditions at 31 March 2009	**Conditions at 31 March 2009**	Conditions at 31 March 2008
Equities	7.50%	-	**7.50%**	7.50%
Bonds	4.75%	-	**4.75%**	5.00%
Bulk transfer	-	6.00%	**6.00%**	5.92%

Changes in the fair value of plan assets

	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009	**Total year to 31 March 2009**	Scheme year to 31 March 2008	Estimated bulk transfer year to 31 March 2008	Total to 31 March 2008
	£000	£000	**£000**	£000	£000	£000
At the beginning of the year	10,848	118,896	**129,744**	-	103,658	103,658
Movement in year						
Actuarial gains/(losses) as a result of change in Bulk transfer uptake	-	(71,338)	**(71,338)**	-	-	-
Expected return on assets	1,013	2,815	**3,828**	352	6,050	6,402
Contributions by plan participants	751	-	**751**	653	-	653
Contributions by employer	15,183	-	**15,183**	11,240	-	11,240
Actuarial gain/(loss)	(2,600)	(6,256)	**(8,856)**	(537)	9,188	8,651
Benefits paid	(1,717)	-	**(1,717)**	(860)	-	(860)
	23,478	44,117	**67,595**	10,848	118,896	129,744

Analysis of the present value of the defined benefit obligations

	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009	**Total year to 31 March 2009**	Scheme year to 31 March 2008	Estimated bulk transfer year to 31 March 2008	Total to 31 March 2008
	£000	£000	**£000**	£000	£000	£000
At the beginning of the year	13,300	108,640	**121,940**	-	114,400	114,400
Movement in year						
Actuarial (gains)/losses as a result of change in Bulk transfer uptake	-	(65,184)	**(65,184)**	-	-	-
Current service cost	10,487	-	**10,487**	10,688	-	10,688
Interest on scheme liabilities	1,091	2,600	**3,691**	262	5,720	5,982
Past service costs	6,700	-	**6,700**	3,800	-	3,800
Actuarial (gain)/loss	(6,941)	(10,383)	**(17,324)**	(1,243)	(11,480)	(12,723)
Contributions by plan participants	751	-	**751**	653	-	653
Benefits paid	(1,469)	(248)	**(1,717)**	(860)	-	(860)
	23,919	35,425	**59,344**	13,300	108,640	121,940

25 Pension Scheme - continued

Analysis of other pension costs charged in arriving at operating profit

	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009	**Total year to 31 March 2009**	Scheme year to 31 March 2008	Estimated bulk transfer year to 31 March 2008	Total to 31 March 2008
	£000	£000	**£000**	£000	£000	£000
Current service costs (operating costs - staff costs)	10,487	-	**10,487**	10,688	-	10,688
Past service costs (operating costs - staff costs)	6,700	-	**6,700**	3,800	-	3,800
Total operating charge	17,187	-	**17,187**	14,488	-	14,488

Analysis of amounts included in other finance income

	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009	**Total year to 31 March 2009**	Scheme year to 31 March 2008	Estimated bulk transfer year to 31 March 2008	Total to 31 March 2008
	£000	£000	**£000**	£000	£000	£000
Expected return on pension scheme assets	1,013	2,815	**3,828**	352	6,050	6,402
Interest on pension scheme liabilities	(1,091)	(2,600)	**(3,691)**	(262)	(5,720)	(5,982)
Other finance income	(78)	215	**137**	90	330	420

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

	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009	**Total year to 31 March 2009**	Scheme year to 31 March 2008	Estimated bulk transfer year to 31 March 2008	Total year to 31 March 2008
	£000	£000	**£000**	£000	£000	£000
Actual return less expected return on scheme assets	(2,600)	(6,256)	**(8,856)**	(537)	9,188	8,651
Experience gains and losses	-	(6,154)	**(6,154)**	(298)	331	33
Changes in assumptions underlying the present value of scheme liabilities	6,941	10,383	**17,324**	1,541	11,149	12,690
Actuarial gain recognised in statement of total recognised gains and losses	4,341	(2,027)	**2,314**	706	20,668	21,374
Cumulative amount of actuarial gains immediately recognised (before deferred tax)	5,047	18,641	**23,688**	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 alloaction 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 6.04% (2008: 5.94%).

25 Pension Scheme - continued

	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009	**Total year to 31 March 2009**	Scheme year to 31 March 2008	Estimated bulk transfer year to 31 March 2008	Total year to 31 March 2008
	£000	£000	**£000**	£000	£000	£000
Actual return on plan assets	(1,587)	(3,441)	**(5,028)**	(185)	15,238	15,053

Experience adjustments on scheme liabilities:		
Amount (£'000)	**(65,184)**	33
Percentage of scheme assets	**(53%)**	-%
Experience adjustments on scheme assets		
Amount (£'000)	**(71,338)**	-
Percentage of scheme assets	**(55%)**	-%

Sensitivity of key assumptions
The sensitivities to assumptions shown below are broadly symmetrical, ie an increase or decrease in the assumption will result in a similar movement in either direction.

Impact of:

	Change in liability	**Change in liability**	Change in liability	Change in liability
	2009	**2009**	2008	2008
	%	**£m**	%	£m
+or- 0.25% in discount rate	**5.1%**	**3**	11.0%	13
+or- 0.25% in rate of inflation	**5.6%**	**3**	9.0%	11
+or- 02.5% in salary inflation	**2.5%**	**1**	4.0%	5
Increase in life expectancy of 1 year	**1.6%**	**1**	2.0%	2

26 Analysis of cash flows

	2008/09 £000	2007/08 £000
Returns on investments and servicing of finance		
Interest received	**1,840**	2,228
Interest paid	**(18,012)**	(9,613)
Interest element of finance lease payments	**(4,193)**	-
Net cash outflow from returns on investments and servicing of finance	**(20,365)**	(7,385)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(270,069)**	(240,400)
Grants and contributions received	**6,270**	5,245
Disposal of tangible fixed assets	**790**	379
Net cash outflow for capital expenditure and financial investment	**(263,009)**	(234,776)
Management of liquid resources		
Decrease/(increase) in short term deposits and investments	**35,000**	(54,000)
Net cash outflow from management of liquid resources	**35,000**	(54,000)
Financing		
Increase in loans	**150,000**	157,560
Capital element of finance lease repayments	**(430)**	-
Net cash outflow from financing	**149,570**	157,560

27 Analysis of net debt

	At start of year £000	Cashflow £000	Other non cash changes £000	**At end of year £000**
Cash in hand and bank	4,005	1,309	-	**5,314**
Deposits and investments	54,000	(35,000)	-	**19,000**
	58,005	(33,691)	-	**24,314**
Debt due within one year	-	-	(2,888)	**(2,888)**
Debt due after one year (including PPP liability)	(307,560)	(150,000)	(108,390)	**(565,950)**
Total	(249,555)	(183,691)	(111,278)	**(544,524)**

28 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:

	2008/09	2007/08
	£000	£000
Subsidy		
Revenue subsidy from DRD (credited to turnover)	**267,549**	253,778
Capital subsidy from DRD credited to Fixed Assets (infrastructure assets) or deferred contribution (non infrastructure)	**1,033**	1,837
Trade Debtors - subsidy (included in Trade Debtors note 15)	**246**	694
Other sales to DRD (credited to turnover)	**1,346**	1,009
Trade Debtors - other sales to DRD (included in Trade Debtors note 15)	**266**	137
Purchases		
Purchases from DRD (included in operating costs)	**2,362**	55
Trade Creditors - purchases to DRD (included in Trade Creditors and accruals note 16)	**352**	-
Loans		
Loans from DRD (note 26)	**150,000**	307,560
Balance on Loans to DRD at year end (note 17)	**457,560**	307,560
Loan Interest to DRD (note 9) - fully paid in year.	**17,886**	9,712
Dividends		
Dividend to Shareholder (note 11)	**-**	33,956
Balance on dividend payable account (note 16)	**-**	33,956

REGULATORY ACCOUNTS
YEAR ENDED 31 MARCH 2009

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 Northern Ireland Water Limited's 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
28 July 2009

INDEPENDENT AUDITOR'S 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 81 to 99 which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory statement of total recognised gains and losses; and

- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost reconciliation of movements in shareholder's funds, the current cost cash flow statement and the related notes to the current cost financial statements including the statement of accounting policies.

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 so that we might state to the Company and the NIAUR those matters that we have agreed to state to them in our report, in order;

(a) to assist the Company to meet its obligation under the Company's Instrument of Appointment to procure such a report; and

(b) to facilitate the carrying out by the NIAUR of its regulatory functions, and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the NIAUR, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines issued by the Water Services Regulation Authority insofar 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 the 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 Auditor

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 45.

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

INDEPENDENT AUDITOR'S REPORT TO THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION AND DIRECTORS OF NORTHERN IRELAND WATER LIMITED

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 84 to 87 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 in accordance 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 considered 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 those 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 financial statements 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 so that we might state to the Company those matters which we 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 81 to 83 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 dis-applied. The effect of this departure from Generally Accepted Accounting Practice, and a reconciliation to the balance sheet drawn up under the Companies (Northern Ireland) Order 1986 is given on page 83.

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2009 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 pages 88 and 89, the state of the Company's affairs at 31 March 2009 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.

INDEPENDENT AUDITOR'S REPORT TO THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION AND DIRECTORS OF NORTHERN IRELAND WATER LIMITED

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 81 to 83 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 84 to 99 have been properly prepared in accordance with Regulatory Accounting Guidelines issued by the NIAUR.

KPMG
Chartered Accountants, Belfast
28 July 2009

Profit and loss account for the year ended 31 March 2009

	Appointed business	Non-Appointed business	Total	Appointed business	Non-Appointed business	Total
	2008/09 £'000	2008/09 £'000	2008/09 £'000	2007/08 £'000	2007/08 £'000	2007/08 £'000
Turnover	327,395	4,177	331,572	294,056	3,661	297,717
Operating costs	(241,364)	(3,021)	(244,385)	(219,094)	(2,378)	(221,472)
Historical cost depreciation	(17,767)	(16)	(17,783)	(12,343)	(16)	(12,359)
Operating profit	68,264	1,140	69,404	62,619	1,267	63,886
Net interest receivable/(payable)	(20,142)	23	(20,119)	(7,113)	28	(7,085)
Profit on ordinary activities before taxation	48,122	1,163	49,285	55,506	1,295	56,801
Taxation on profit on ordinary activities:						
Deferred tax	(13,531)	(231)	(13,762)	(15,562)	(194)	(15,756)
Profit on ordinary activities after taxation	34,591	932	35,523	39,944	1,101	41,045
Dividends	-	-	-	(33,538)	(418)	(33,956)
Retained profit for the financial year	34,591	932	35,523	6,406	683	7,089

Balance sheet as at 31 March 2009

	Appointed business	Non-Appointed business	Total	Appointed business	Non-Appointed business	Total
	2008/09 £'000	2008/09 £'000	2008/09 £'000	2007/08 £'000	2007/08 £'000	2007/08 £'000
Fixed assets						
Tangible assets	1,435,240	165	1,435,405	1,103,597	192	1,103,789
Investments	106	-	106	106	-	106
	1,435,346	165	1,435,511	1,103,703	192	1,103,895
Current assets						
Stocks	1,896	5	1,901	2,400	5	2,405
Debtors	29,706	352	30,058	30,570	145	30,715
Infrastructure renewals prepayment	91	-	91	-	-	-
Cash at bank and in hand	22,554	1,760	24,314	56,844	1,161	58,005
	54,247	2,117	56,364	89,814	1,311	91,125
Creditors: amounts falling due within one year						
Payments received on account	(1,510)	-	(1,510)	(1,717)	-	(1,717)
Trade creditors	(18,030)	(207)	(18,237)	(26,515)	(235)	(26,750)
Taxation and social security	(1,160)	-	(1,160)	(118)	-	(118)
Other creditors	(3,378)	-	(3,378)	(1,981)	-	(1,981)
Accruals and deferred income	(104,495)	(69)	(104,564)	(80,077)	28	(80,049)
Dividend payable	-	-	-	(33,538)	(418)	(33,956)
Deferred grants and contributions	(574)	-	(574)	(383)	-	(383)
PPP finance lease	(2,888)	-	(2,888)	-	-	-
Infrastructure renewals accrual	-	-	-	(9,695)	-	(9,695)
	(132,035)	(276)	(132,311)	(154,024)	(625)	(154,649)
Net current (liabilities)/assets	(77,788)	1,841	(75,947)	(64,210)	686	(63,524)
Total assets less current liabilities	1,357,558	2,006	1,359,564	1,039,493	878	1,040,371
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(457,560)	-	(457,560)	(307,560)	-	(307,560)
Other creditors	(125,333)	-	(125,333)	(12,798)	-	(12,798)
	(582,893)	-	(582,893)	(320,358)	-	(320,358)
Provisions for liabilities and charges						
Deferred tax provision	(30,653)	(391)	(31,044)	(16,566)	(194)	(16,760)
Other provisions	(20,638)	-	(20,638)	(15,131)	-	(15,131)
	(51,291)	(391)	(51,682)	(31,697)	(194)	(31,891)
Pension asset	5,941	-	5,941	5,619	-	5,619
Net assets	729,315	1,615	730,930	693,057	684	693,741
Capital and reserves						
Called up share capital	500,000	-	500,000	500,000	-	500,000
Distributable reserve	171,690	-	171,690	171,690	-	171,690
Profit and loss account	57,625	1,615	59,240	21,367	684	22,051
Shareholder's funds	729,315	1,615	730,930	693,057	684	693,741

These financial statements were approved by the Board of Directors on 28 July 2009 and were signed on its behalf by:

Chris Mellor, Chairman and Acting Chief Executive
28 July 2009

Statement of total recognised gains and losses for the year ended 31 March 2009

	Appointed business	Non-Appointed business	Total	Appointed business	Non-Appointed business	Total
	2008/09 £'000	2008/09 £'000	2008/09 £'000	2007/08 £'000	2007/08 £'000	2007/08 £'000
Profit for the financial year	**34,591**	**932**	**35,523**	39,944	1,101	41,045
Actuarial gain recognised in the pension scheme	**2,314**	**-**	**2,314**	21,374	-	21,374
Deferred tax arising on gains in the pension scheme	**(648)**	**-**	**(648)**	(6,412)	-	(6,412)
Total recognised gains and losses relating to the financial year	**36,257**	**932**	**37,189**	54,906	1,101	56,007

Reconciliation between statutory accounts and historic cost regulatory accounts for the year ended 31 March 2009

	Statutory accounts £'000	Regulatory accounts £'000	Explanation
Profit and loss account			
Operating profit	69,404	69,404	No difference
Profit before tax	49,285	49,285	No difference
Balance sheet			
Tangible fixed assets (NBV)	1,435,496	1,435,405	The difference of £91k is attributable to the renewals prepayment as this is added to the fixed assets net book value in the regulatory accounts. This is in line with Regulatory Accounting Guidelines 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 2009

	Note	2008/09 £'000	2007/08 £'000
Turnover	3	**327,395**	294,056
Current cost operating costs	4	**(315,427)**	(278,250)
Current cost loss on disposal of fixed assets	3	**(50)**	(56)
Working capital adjustment	3,8	**(292)**	1,327
Current cost operating profit		**11,626**	17,077
Net interest payable		**(20,142)**	(7,114)
Financing adjustment	8	**(1,044)**	6,543
Current cost (loss)/profit before taxation		**(9,560)**	16,506
Taxation on (loss)/profit on ordinary activities:			
Deferred tax		**(13,531)**	(15,562)
Current cost (loss)/profit attributable to Shareholder		**(23,091)**	944
Dividends		**-**	(33,538)
Current cost loss retained	7	**(23,091)**	(32,594)

Balance sheet for appointed business at 31 March 2009

	Note	2008/09 £'000		2007/08 £'000	
Fixed assets					
Tangible assets	5	**6,958,885**		6,689,434	
Third party contributions		**(114,399)**		(91,813)	
			6,844,486		6,597,621
Working capital	6	**(96,959)**		(77,318)	
Cash	9	**3,554**		2,844	
Short term deposits	9	**19,000**		54,000	
Infrastructure renewals prepayment/(accrual)		**91**		(9,695)	
Net operating liabilities			**(74,314)**		(30,169)
Non operating assets and liabilities					
Non trade debtors		**1,486**		1,490	
Non trade creditors due within one year	9	**(4,385)**		(1,610)	
Investments		**106**		106	
Dividend payable		**-**		(33,538)	
Total non operating liabilities			**(2,793)**		(33,552)
Creditors: amounts falling due after more than one year					
Borrowings	9	**(457,560)**		(307,560)	
Other creditors		**(110,808)**		(3,422)	
			(568,368)		(310,982)
Provisions for liabilities and charges					
Deferred tax provision		**(30,653)**		(16,566)	
Other provisions		**(20,638)**		(15,131)	
			(51,291)		(31,697)
Pension asset			**5,942**		5,619
Net assets			**6,153,662**		6,196,840
Capital and reserves					
Called up share capital			**500,000**		500,000
Distributable reserve			**171,690**		171,690
Profit and loss account	7		**(39,057)**		(17,632)
Current cost reserves	8		**5,521,029**		5,542,782
Shareholder's funds			**6,153,662**		6,196,840

These financial statements were approved by the Board of Directors on 28 July 2009 and were signed on its behalf by:

Chris Mellor, Chairman and Acting Chief Executive
28 July 2009

Reconciliation of movements in shareholder's funds for the year ended 31 March 2009

	2008/09	2007/08
	£'000	£'000
(Loss)/profit for the financial year	**(23,091)**	944
Dividends on shares classified in shareholder's funds	**-**	(33,538)
Retained loss	**(23,091)**	(32,594)
Other recognised gains and losses relating to the year (net)	**1,666**	14,962
Profit and loss account	**(21,425)**	(17,632)
Issue of share capital	**-**	500,000
Distributable reserves arising under the Water and Sewerage Services (Northern Ireland) Order 2006	**-**	171,690
(Decrease)/increase in current cost reserves	**(21,753)**	5,542,782
Net (reduction)/addition to shareholder's funds	**(43,178)**	6,196,840
Opening shareholder's funds	**6,196,840**	-
Closing shareholder's funds	**6,153,662**	6,196,840

Cashflow statement for the year ended 31 March 2009

	Appointed business	Non-Appointed business	Total	Appointed business	Non-Appointed business	Total
	2008/09 £'000	2008/09 £'000	2008/09 £'000	2007/08 £'000	2007/08 £'000	2007/08 £'000
Net cash inflow from operating activities Note 11(a)	133,052	1,017	134,069	142,202	1,161	143,363
Returns on investments and servicing of finance						
Interest received	1,840	-	1,840	2,228	-	2,228
Interest paid	(18,012)	-	(18,012)	(9,613)	-	(9,613)
Interest element of finance lease	(4,193)	-	(4,193)	-	-	-
Net cash out flow from returns on investments and servicing of finance	(20,365)	-	(20,365)	(7,385)	-	(7,385)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	(226,011)	-	(226,011)	(214,427)	-	(214,427)
Grants and contributions received	6,270	-	6,270	3,703	-	3,703
Infrastructure renewals expenditure	(44,058)	-	(44,058)	(24,431)	-	(24,431)
Disposal of fixed assets	790	-	790	379	-	379
Net cash outflow from investing activities	(263,009)	-	(263,009)	(234,776)	-	(234,776)
Equity dividends paid to shareholders	(33,538)	(418)	(33,956)	-	-	-
Cash (outflow)/inflow before management of liquid resources and financing	(183,860)	599	(183,261)	(99,959)	1,161	(98,798)
Management of liquid resources	35,000	-	35,000	(54,000)	-	(54,000)
Cash inflow/(outflow) from management of liquid resources	35,000	-	35,000	(54,000)	-	(54,000)
Net cashflow before financing	(148,860)	599	(148,261)	(153,959)	1,161	(152,798)
Financing						
Loans advanced	150,000	-	150,000	157,560	-	157,560
Capital element of finance lease repayments	(430)	-	(430)	-	-	-
Net cash inflow from financing	149,570	-	149,570	157,560	-	157,560
Net increase in cash	710	599	1,309	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 2 to 44, 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 32 and on 'Disclosure of Information to Auditors' on page 34.

The Directors' remuneration report is set out on pages 41 to 43 and includes information on Directors' pay and standards of performance in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006.

The Directors of NI Water confirm that no amounts were given to charitable trusts assisting customers or similar funds in the year ended 31 March 2009.

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 51 to 53, except for those set out below.

(c) Tangible fixed assets and depreciation

The value of tangible fixed assets 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 an asset management plan which reported at 1 September 2001 and which was updated to include subsequent expenditure and indexed to reflect inflation. Assets with an open market value, including surplus land were separately valued at 31 March 2007 and these values have been adopted at 1 April 2007.

The RAGs and any modifications issued by 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.

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 2001/2002 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 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 2008/09 is based on an analysis of capital expenditure on a project-by-project basis. This is the second 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.

The Interim Reporter also carried out a further review for the Company during the year on the renewals expenditure required to maintain the operating capability of the network assets.

(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 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 statements.

3 Analysis of current turnover and operating income

	2008/09 Water services £'000	2008/09 Sewerage services £'000	2008/09 Total £'000	2007/08 Water services £'000	2007/08 Sewerage services £'000	2007/08 Total £'000
Turnover						
Unmeasured - household	114,083	104,945	219,028	104,560	99,245	203,805
Unmeasured - non household	1,699	1,637	3,336	-	-	-
Total unmeasured	115,782	106,582	222,364	104,560	99,245	203,805
Measured - household	-	-	-	-	-	-
Measured - non household	39,768	36,965	76,733	40,623	37,164	77,787
Total measured	39,768	36,965	76,733	40,623	37,164	77,787
Trade effluent	-	4,712	4,712	-	5,471	5,471
Large user and special	5,352	-	5,352	5,863	-	5,863
Total trade effluent and large user special agreements	5,352	4,712	10,064	5,863	5,471	11,334
Rechargeable works	192	192	384	307	-	307
Other third party services	407	17,443	17,850	557	266	823
Total third party services	599	17,635	18,234	864	266	1,130
Total turnover	161,501	165,894	327,395	151,910	142,146	294,056

	2008/09 Water services £'000	2008/09 Sewerage services £'000	2008/09 Total £'000	2007/08 Water services £'000	2007/08 Sewerage services £'000	2007/08 Total £'000
Operating income and working capital adjustment for the appointed business						
Current cost profit/(loss) on disposal of fixed assets	(72)	22	(50)	21	(77)	(56)
Working capital adjustment	(292)	-	(292)	1,327	-	1,327

4a Analysis of operating costs and tangible fixed assets

	2008/09							
	Water services			Sewerage services				
	Resource and treatment £'000	Distribution £'000	Water services subtotal £'000	Sewerage £'000	Sewage treatment £'000	Sludge treatment and disposal £'000	Sewerage services subtotal £'000	**Total £'000**
Direct costs								
Employment costs	9,263	22,317	31,580	12,058	10,504	2,684	25,246	**56,826**
Power	10,972	2,994	13,966	5,989	9,472	2,542	18,003	**31,969**
Hired and contracted services	5,159	6,580	11,739	10,001	5,456	11,173	26,630	**38,369**
Materials and consumables	4,822	1,804	6,626	1,035	1,520	1,219	3,774	**10,400**
Other direct costs	1,575	1,067	2,642	1,451	1,037	727	3,215	**5,857**
Total direct costs	**31,791**	**34,762**	**66,553**	**30,534**	**27,989**	**18,345**	**76,868**	**143,421**
General & support expenditure	3,645	5,265	8,910	1,890	1,730	1,135	4,755	**13,665**
Total functional expenditure	**35,436**	**40,027**	**75,463**	**32,424**	**29,719**	**19,480**	**81,623**	**157,086**
Business activities								
Customer services			7,930				8,943	**16,873**
Scientific services			1,382				1,559	**2,941**
Cost of regulation			1,602				1,806	**3,408**
Rates			6,656				5,845	**12,501**
Doubtful debts			3,225				-	**3,225**
Total operating expenditure less third party services			**96,258**				**99,776**	**196,034**
Services for third parties			952				-	**952**
Total PPP unitary charge			1,289				9,316	**10,605**
Total operating expenditure			**98,499**				**109,092**	**207,591**
Capital costs								
Infrastructure renewals charge			25,905				8,367	**34,272**
Current cost depreciation:								
service activities	16,433	15,371	31,804	1,798	38,546	3,790	44,134	**75,938**
business activities			73				173	**246**
Amortisation of grants			(1,117)				(1,503)	**(2,620)**
Total capital costs			**56,665**				**51,171**	**107,836**
Total operating costs			**155,164**				**160,263**	**315,427**
Analysis of tangible fixed assets - MEAV* (modern equivalent asset values)								
Service activities	736,682	2,671,617	3,408,299	2,388,216	1,114,847	44,224	3,547,287	6,955,586
Business activities			1,392				1,907	3,299
Total			**3,409,691**				**3,549,194**	**6,958,885**

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

4b Analysis of operating costs and tangible fixed assets

	2007/08							
	Water services			Sewerage services				
	Resource and treatment £'000	Distribution £'000	Water services subtotal £'000	Sewerage £'000	Sewage treatment £'000	Sludge treatment and disposal £'000	Sewerage services subtotal £'000	**Total £'000**
Direct costs								
Employment costs	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 & 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* (modern equivalent asset values)								
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.

The tables above showing the analysis of operating costs have been prepared in accordance with Regulatory Accounting Guidelines 4.03 'Analysis of operating costs and assets.' Direct costs have been charged directly to the service to which they relate. General and support costs are, where possible, allocated directly to the service to which they relate. Any remaining general and support costs which cannot be directly allocated to a particular service are apportioned either on the basis of the directly coded spend or on the basis of the direct labour charge.

All costs relating to business activities 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 was 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 2008/09 in respect of infrastructure assets amounted to £8.85m (2007/08 £11.4m) on water services and £6.05m (2007/08 £7.7m) 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 2008	672,769	7,789	2,610,480	22,975	**3,314,013**
RPI and other adjustments	(2,354)	(29)	(9,535)	(79)	**(11,997)**
Disposals	(3)	-	-	(909)	**(912)**
Additions	116,844	-	47,781	4,781	**169,406**
At 31 March 2009	787,256	7,760	2,648,726	26,768	**3,470,510**
Depreciation					
At 1 April 2008	(26,425)	(79)	-	(2,798)	**(29,302)**
RPI and other adjustments	99	-	-	11	**110**
Disposals	-	-	-	250	**250**
Charge for year	(28,460)	(79)	-	(3,338)	**(31,877)**
At 31 March 2009	(54,786)	(158)	-	(5,875)	**(60,819)**
Net book value at 31 March 2009	**732,470**	**7,602**	**2,648,726**	**20,893**	**3,409,691**
Net book value at 1 April 2008	646,344	7,710	2,610,480	20,177	3,284,711

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 2008	928,223	10,074	2,466,582	31,884	**3,436,763**
RPI and other adjustments	(2,727)	(38)	(8,914)	(96)	**(11,775)**
Disposals	(6)	-	-	(204)	**(210)**
Additions	107,445	-	89,338	3,717	**200,500**
At 31 March 2009	1,032,935	10,036	2,547,006	35,301	**3,625,278**
Depreciation					
At 1 April 2008	(29,524)	(105)	-	(2,411)	**(32,040)**
RPI and other adjustments	110	-	-	9	**119**
Disposals	-	-	-	144	**144**
Charge for year	(41,384)	(105)	-	(2,818)	**(44,307)**
At 31 March 2009	(70,798)	(210)	-	(5,076)	**(76,084)**
Net book value at 31 March 2009	**962,137**	**9,826**	**2,547,006**	**30,225**	**3,549,194**
Net book value at 1 April 2008	898,699	9,969	2,466,582	29,473	3,404,723

5 Analysis of Tangible Fixed Assets by Assets Type - continued

Total Services	Specialised Operational Assets £'000	Non-Specialised Operational Assets £'000	Infrastructure Assets £'000	Other Assets £'000	Total £'000
Gross replacement cost					
At 1 April 2008	1,600,992	17,863	5,077,062	54,859	**6,750,776**
RPI and other adjustments	(5,081)	(67)	(18,448)	(175)	**(23,771)**
Disposals	(9)	-	-	(1,113)	**(1,122)**
Additions	224,289	-	137,119	8,498	**369,906**
At 31 March 2009	1,820,191	17,796	5,195,733	62,069	**7,095,789**
Depreciation					
At 1 April 2008	(55,949)	(184)	-	(5,209)	**(61,342)**
RPI and other adjustments	209	-	-	20	**229**
Disposals	-	-	-	394	**394**
Charge for year	(69,844)	(184)	-	(6,156)	**(76,184)**
At 31 March 2009	(125,584)	(368)	-	(10,951)	**(136,903)**
Net book value at 31 March 2009	**1,694,607**	**17,428**	**5,195,733**	**51,118**	**6,958,885**
Net book value at 1 April 2008	1,545,043	17,679	5,077,062	49,650	**6,689,434**

5 Analysis of Tangible Fixed Assets by Assets Type - continued

In the preparation of its Statutory Accounts, 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 Accounts FRS 15 is not applied for infrastructure renewals accounting. A reconciliation to the tangible fixed assets shown in the Statutory Accounts is set out below:

	Infrastructure Assets £'000
Cost	
At 31 March 2009 per Regulatory Accounts	5,195,733
Less capital contributions	(19,806)
Adjustment to opening balance at 1 April 2008*	(4,456,151)
Infrastructure renewals expenditure capitalised in the year	44,058
At 31 March 2009 per Statutory Accounts	763,834
Depreciation	
At 31 March 2009 per Regulatory Accounts	-
Cumulative depreciation charge for infrastructure renewals expenditure	(70,279)
At 31 March 2009 per Statutory Accounts	(70,279)
Net book value	
At 31 March 2009 per Regulatory Accounts	5,195,733
Less capital contributions	(19,806)
Adjustment to opening balance at 1 April 2008*	(4,456,151)
Infrastructure renewals expenditure capitalised in the year	44,058
Accumulated depreciation charge for infrastructure renewals expenditure	(70,279)
At 31 March 2009 per Statutory Accounts	693,555
Infrastructure renewals prepayment	
At 31 March 2009 per Regulatory Accounts	91
Less infrastructure renewals prepayment	(91)
At 31 March 2009 per Statutory Accounts	-

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

6 Working Capital

	2008/09 £000	2007/08 £000
Stocks	**1,896**	2,400
Trade Debtors		
- measured household	**-**	-
- unmeasured household	**-**	-
- measured non-household	**6,991**	4,459
- unmeasured non- household	**584**	-
Other trade debtors	**710**	2,021
Measured income accrual	**12,594**	6,674
Prepayments and other debtors	**7,341**	15,926
Trade Creditors	**(18,030)**	(26,515)
Deferred Income - customer advance receipts	**(1,509)**	(1,717)
Capital Creditors	**(64,335)**	(51,952)
Accruals and other creditors	**(43,201)**	(28,614)
	(96,959)	(77,318)

7 Profit and Loss Reserve

	2008/09 £'000	2007/08 £'000
At 1 April	**(17,632)**	-
Retained current loss for year	**(23,091)**	(32,594)
FRS 17 actuarial gain	**2,314**	21,374
Deferred tax on actuarial gain	**(648)**	(6,412)
At 31 March	**(39,057)**	(17,632)

8 Movement on Current Cost Reserve

	2008/09 £'000	2007/08 £'000
At 1 April	**5,542,782**	5,332,978
AMP adjustment	**-**	-
RPI adjustments:		
Fixed assets	**(23,580)**	220,162
Grants and third party contributions	**347**	(2,513)
Current cost loss on disposal of fixed assets	**144**	25
Working capital	**292**	(1,327)
Financing	**1,044**	(6,543)
At 31 March	**5,521,029**	5,542,782

9 Net Debt Analysis

Included within creditors falling due within one year and greater than one year is net debt as follows:	**2008/09 Fixed rate £'000**	**2008/09 Total £'000**	2007/08 Fixed rate £'000	2007/08 Total £'000
Maturity Profile				
Less than one year	**(2,888)**	**(2,888)**	-	-
Between one and two years	**(6,387)**	**(6,387)**	-	-
Between two and five years	**(9,657)**	**(9,657)**	-	-
Between five and twenty years	**(546,687)**	**(546,687)**	(307,560)	(307,560)
More than twenty years	**(3,219)**	**(3,219)**	-	-
Total borrowings	**(568,838)**	**(568,838)**	(307,560)	(307,560)
Cash	**3,554**	**3,554**	2,844	2,844
Short term deposits	**19,000**	**19,000**	54,000	54,000
Net debt at 31 March 2009	**(546,284)**	**(546,284)**	(250,716)	(250,716)

10 Reconciliation of historical cost profit to current cost loss

	2008/09 £000	2007/08 £000
Historical cost profit per regulatory accounts	**35,523**	7,089
Less non appointed activities	**(932)**	(683)
Sub total historical cost	**34,591**	6,406
Less difference in loss on disposals	**(144)**	(25)
Working capital adjustment	**(292)**	1,327
Financing adjustment	**(1,044)**	6,543
Add back historical cost depreciation including infrastructure renewals charge	**52,039**	48,011
Less current cost depreciation	**(76,184)**	(61,349)
Less infrastructure renewals charge	**(34,272)**	(35,668)
Add back historical cost amortisation of grant reserve	**(407)**	(339)
Less current cost amortisation of grant reserve	**2,622**	2,500
Current cost loss	**(23,091)**	(32,594)

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

	2008/09 £000	2007/08 £000
Current cost operating profit	**11,626**	17,077
Working capital adjustment	**292**	(1,327)
Movement in working capital	**7,258**	26,554
Current cost depreciation	**76,184**	61,349
Current cost loss on sale of fixed assets	**50**	56
Infrastructure renewals charge	**34,272**	35,668
Other non-cash items		
Amortisation of deferred grants and contributions	**(2,621)**	(2,515)
PPP residual asset credits	**(1,520)**	(524)
Adjustment for FRS 17	**2,004**	3,248
Movement in provisions and creditors > 1 yr	**5,507**	2,616
Net cash inflow from operating activities	**133,052**	142,202

11b Analysis of net debt

	1 April 2008 £000	Cashflows £000	Non cash changes £000	31 March 2009 £000
Cash at bank and in hand	2,844	710	-	**3,554**
Deposits and investments	54,000	(35,000)	-	**19,000**
	56,844	**(34,290)**	**-**	**22,554**
Debt due within one year	-	-	(2,888)	**(2,888)**
Debt due after one year (incl PPP liability)	(307,560)	(150,000)	(108,390)	**(565,950)**
Total	**(250,716)**	**(184,290)**	**(111,278)**	**(546,284)**

12 Regulatory capital value ("RCV")

	£'000	£'000
Revised opening balance at 1 April 2008	**999,725**	830,137
Capital expenditure*	**238,138**	226,797
Infrastructure renewals expenditure	**44,058**	25,973
Infrastructure renewals charge	**(34,272)**	(35,668)
Grants and contributions	**(5,747)**	(1,076)
Depreciation	**(47,216)**	(61,349)
Closing RCV	**1,194,686**	984,814
Average RCV	**1,097,206**	907,476
Opening RCV		
At 1 April 2008	**984,814**	800,000
adjust 2007-2008 RCV for application of broad equivalence*	**18,696**	-
Revised opening balance at 1 April 2008	**1,003,510**	800,000
Indexed for 2008-09	**(3,785)**	30,137
Opening RCV	**999,725**	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 efficiencies will be taken into account in the calculation for the next Price Control Period commencing in 2010 ("PC10").

* Capital expenditure excludes £111.962m relating to the Alpha PPP project. This is in line with the assumptions used for the RCV calculation within the 'PC10' submission to NIAUR.

** An adjustment has been made to the opening RCV at 1 April 2008 to incorporate the use of the regulatory principle of 'broad equivalence'. Broad equivalence limits the level of current cost depreciation (CCD) that is deducted within the RCV calculation to the amount of expenditure during the year on the base maintenance for non infrastructure assets. This principle was not applied in the 2007-2008 regulatory accounts and the adjustment of £18,696k gives an opening balance of £1,003,510 which would have been the closing RCV at 31 March 2008 if broad equivalence had been adopted. The application of this principle affects the RCV only and does not impact on the CCD charged to the Profit and Loss Account.

Annex A - Listing of Key Performance Indicators (KPIs)

	KPI	Note	Target 2008/09	Actual 2008/09	Target 2009/10
	CUSTOMERS				
1.	Supply interruptions (H) (DG3) - number of properties experiencing unplanned and unwarned interruptions (expressed as a percentage of households) in excess of:				
	6 hours	1	1.20	**1.094**	1.00
	12 hours	1	0.15	**0.259**	0.15
	24 hours		0.01	**0.077**	0.01
2.	Response to billing Contacts (DG6) - number of billing contacts answered within 5 working days as % of total billing contacts (%)		97	**98.6**	98
3.	Response to written complaints (H) (DG7) - no. of written complaints answered within ten days as a % of total written complaints (%)		97	**97.60**	98
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 (%)	2	95	**93.25**	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 (%)		95	**97.09**	96
6.	Ease of telephone contact (DG9 – new)	3			
	- % of calls not abandoned		99	**98.88**	100
	- % of calls not all lines busy		99	**100**	99.8
	- customer satisfaction (score out of 5)		4.35	**4.4**	4.6
7.	Inadequate Pressure (DG2) - number of properties at risk of receiving pressure below reference level of 10 metres head at a flow of 9 litres per minute, expressed as a percentage of total properties (%)	4	#	**#**	#
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.	5	#	**#**	#
9.	Sewer flooding (DG5) – other causes. Number of properties affected by an incident of internal sewage flooding caused by equipment failure in, blockage or collapse of, a sewer (also termed 'other causes')	5	#	**#**	#
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	5	#	**#**	#

	KPI	Note	Target 2008/09	Actual 2008/09	Target 2009/10
	CASH				
11.	Leakage (H) - reduction in overall leakage (million litres per day)	6	146.0	**180.9**	#
12.	Operating margin excluding exceptionals (%)	7	27.52	**27.00**	23.78
13.	Comparative operating cost efficiency (H) – expressed in £m from a 2003/4 base	8	38.6	**Note 8**	53.8
14.	Comparative capital efficiency (H) – expressed as a percentage of total capital expenditure (%)	8	8.3	**Note 8**	17
	Billing				
15.	(a) percentage of measured bills issued within 5 working days of a meter reading excluding any exception readings that require investigation	9	#	**#**	#
	(b) percentage of measured bills issued within 5 working days of a meter reading including any exception readings needing investigation	9	#	**#**	#
16.	Days sales outstanding – Average number of days' sales outstanding				
	a) Measured (Days' sales outstanding)	10	63	**64**	76
	b) Unmeasured (Debtor Days)	10	33	**87**	58
	PEOPLE				
17.	Health and safety (H) – reduction in the number of 'lost day accidents' based on the previous three year average (number)	11	15 days [5% reduction]	**14 days**	12**
18.	Manpower numbers (H) – number of posts		1,716	**1,617**	1,304
19.	Staff attendance (H) (%)	12	95.7	**95.3**	95.7
20.	Staff satisfaction engagement – score out of 100	13	#	**#**	73.2
	COMPLIANCE				
21.	Drinking water quality (H) - Mean zonal compliance (%)**		99.35	**99.49**	99.65
22.	Operational Performance Indicator (Turbidity, Iron and Manganese) (%)**		98.95	**99.22**	99.05

KPI	Note	Target 2008**	Actual 2008**	Target 2009**
23. 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	14	86.0	**87.84**	87
(b) percentage of population equivalent	14	89.0	**90.24**	93.5
24. Wastewater Treatment Works passing Urban Waste Water Treatment Directive numeric consents (%)		90.5	**92**	93
25. Pollution incidents (H) (high/medium) – number of pollution incidents attributed to N.I. Water		56	**56**	56
26. Capex issues and initiatives - completion of schemes costing over £250k, scheduled to start in the Capital Works Programme (%)		90*	**90.6**	90*

Key to table: Achieved ■ Not achieved ■

- not measured / no target

* - target set on financial year basis in line with targets 1 to 20

** - targets set and measured on a calendar year basis

H - headline key performance indicator

Notes to table:

1. NI Water underperformed against KPI targets 1b and 1c - numbers of properties experiencing unplanned and unwarned interruptions (expressed as a percentage of connected properties) in excess of 12 hours and 24 hours. This underperformance can be attributed to a small though significant number of incidents involving higher than average numbers of properties and supply restoration times. Significant incidents included an unplanned interruption at Rasharkin in July 08, a difficult repair to a bridge crossing on the Ballyhill Road in March 09 and a much publicised burst on a trunk main in Portaferry, also in March. The exceptional rainfall in August 08, resultant ground movement and associated increase in numbers of bursts, also impacted heavily on KPI compliance.

2. The number of metered accounts excluded from the indicator has increased this year as last years report did not include all the appropriate exclusions. The number of metered accounts has increased by 5,631 due to the completion of the phase 3 non domestic metering program and the domestic metering program. The number of companies reads and customer reads has increased due to concerted efforts from the metering team despite reductions in the number of meter readers, although this didn't increase a much as was hoped due to resource issues. As a result the number of estimated bills only has increased by 1,065. No bills received and unread for 2 years has reduced significantly due to the correct exclusions being applied and the efforts of teams. During the year work has been ongoing to remove the manual steps from the data transfer in relation to Rapid Routestar interface. This will improve the efficiency and accuracy of the transfer process and is currently in testing.

3. The performance for this KPI narrowly missed its challenging target of 99% of calls not abandoned. In the 2008/2009 reporting year 98.88% of calls were not abandoned. The failure to meet the expected target can be attributed to the August flooding when 3000 calls were received in one weekend (10 times the expected volume). The KPI 6a

performance in August was 94.23% and the poor performance of this month was enough to bring the YTD performance below target.

4. Significant progress has been made in relation to the verification of the DG2 Register containing records of low pressure and this work will continue in the 09/10 period. Post project appraisals in relation to capital rehabilitation water schemes have been provided (15 projects) by Consultants along with validation data for a further 7 Schemes. These appraisals and validation work together with ongoing field studies will facilitate the removal of properties from the DG2 Register. At the start of the year there were 10,321 properties on the DG2 Register. The current number of properties that can be removed from the Register resulting from Rehabilitation schemes is approximately 2,092. In addition field analysis is providing substantiation for the removal of approximately 3,674 properties from the Register. Field validation has been completed in relation to the 105,000 properties which were under investigation owing to the non alignment of Zonal Study and NIW data. As a result of this work approximately 1,240 properties have been identified for addition to the Register. The number of properties recorded as being on the Register at 31 March 2009 was 5,770.

5. Further work to accelerate DG5 is planned. The number of uninvestigated / undetermined sewer flooding records currently stands at Internal: 0 and External: 41,000. 2,967 internal flooding records have been determined with 792 of these being DG5 Reportable. 715 of these records are from historical records were the robustness of the quality of the data is questionable. 1,839 external flooding records have been determined with 527 of these being DG5. 1,795 records have been excluded. The aim was to have 100% of internal records investigated and determined by October 2008, this was achieved and work has commenced on the investigating and determining of external flooding records.

6. See Leakage detail in Cash section page 19.

7. 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 primarily failed due to income received during the year being lower than budget and operational costs (excluding voluntary early departure and business improvement costs) being higher than budget.

8. 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 'on track for achievement' on the basis that the efficiencies have been deducted from the 2008/09 budget.

9. The aim of these two metrics 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.

   A target was not set for 2008/09 due to technical hitches with measuring, however a report developed towards end of year measured a and b and showed performance to be 67% and 66% respectively. Improvement plans have been put in place to address poor performance and an increasing target has been set over next three years to achieve stretching target of 97% and 94%

10. The target failed due to underperformance in collections of approximately £130k under target.

11. The KPI for NI Water for 2009/10 on Health and Safety has thus been agreed at 12 No. "3-day accidents" (i.e. reportable to HSENI) under the RIDDOR (NI) Regulations.

12. See commentary in People section page 21.

13. Target under construction following the development of a new staff satisfaction survey. Target to be set in 2009/10.

14. Final outturn subject to agreement with NIEA at time of publication.

Annex B - Explanation of KPI Indicators

Target 1 – supply interruptions (DG3)

Purpose

The purpose of this KPI is to measure the percentage of properties that experience an unplanned interruption to supply greater than 6hrs, 12 hrs and 24hrs.

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 and recorded on an excel spreadsheet, where it is checked for accuracy and categorised according to the type and duration of the interruption. Information pertaining to unplanned interruptions to supply greater than 6 hours, 12 hours and 24 hours is presented in a form similar to that of the Annual Information Return table. Corresponding percentages are calculated and presented against KPI targets each month.

Assumptions and limitations

There are two methodologies for recording the number of properties affected by an interruption. In general the number of properties are counted on site during the course of the repair, alternatively mainly for larger interruptions house numbers are recorded using a Geographic Information System (GIS).

Target 2 – Response to Billing Contacts

Purpose

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

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

Sources, assumptions and limitations

Implementation of a Customer Service Improvement Programme, linked to Business Improvement, has consolidated the new Customer Relations Centre systems and streamlined the interfaces with operational service delivery. Through this programme, NI Water is improving the service provided in response to queries and resolving customer issues. In all cases the aim is to give a prompt, courteous and professional response. As systems have developed over the past year, incoming mail is logged by the Customer Relations Centre, the final phase of which (mail intended for the Chief Executive and Directors) being processed on system from December 2007.

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. This is so that these customers pay no more or less than is due, and are 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 Sundays.

Sources, assumptions and limitations

Business hours relate to Customer Relations Centre's published hours.

Target 6 – 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 Waters customer base.

Measurement of target

To measure the total calls received to customer contact lines, all lines busy (calls that receive engaged tones or are advised that NIW is unable to take their call) and total calls abandoned (calls received which are abandoned before it is substantively answered by NIW).

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

Sources, assumptions and limitations

The indicator is intended to monitor incoming telephone traffic which can be regarded as originating from NI Waters customer base. NI Water can exclude:

- calls from contractors and suppliers, or calls made by a contractor's field operatives to contractor offices
- 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 Waters 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 an 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 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

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 in, 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 that 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).

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 2008 was 156.52 million litres per day (Ml/day), and a reduction of 10.52 million litres per day was required to achieve the target of 146 Ml/day for 31 March 2009. 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 2008/09 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 19.

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 finance 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 delivery of the Business Improvement Programme.

Target 14 – Comparative capital 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 delivery of the Business Improvement Programme.

Target 15 – Billing

Purpose

Target 15 a and b measures the first part of the cash cycle, the length of time it takes to issue bills to customers and highlight any delay in processes.

The aim of these two measures is to ensure that our customers receive bills on a timely basis, minimize the number of meter readings investigations and ensure timely upload of reads which may delay the issuing of invoices.

Parameters of Target

Target 15 a and b for 09/10 are 93% and 90%

Measurement of target

Measurement calulates the percentage of bills issued within five days of the meter reading.

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 annual bill run is excluded from this measure The achievement of this target is dependent on the performance of meter reading team and the outsource partner handling customer billing and collections.

Target 16 – debtor days 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 annual target measures the speed of collection of amounts billed.

Parameters of Target

Target is the number of days' credit sales (water, sewerage and trade effluent) outstanding at the date of measurement.

Measurement of target

The days' sales outstanding calculation uses the monthly billing total for measured water, sewerage and trade effluent. The total debt figure is the accounts receivable total for water, sewerage and trade effluent. The measurement calculates what proportion of previous monthly billings is remaining as debt.

Assumptions and limitations
Downturn in demand

As billing decreases the proportion of debt to sales increases and DSO rises in the short term as there is a lag time between raising bills and collection of the debt.

Billing Profiles

There are considerable variations in billing each month due to the 6 monthly billing profiles, these lead to fluctuations in DSO.

Continued supply to non-payers

In the majority of cases, NIW cannot disconnect (due to domestic elements on the supply) so debt continues to build up. This situation is unique to the utility industry.

Legacy debt

Has not been written off so we are therefore comparing sales in a single year with debt which spans up to 4 years.

Write off policy

Is to only write off debts which have been confirmed as uncollectible, such as insolvencies. There is a lengthy approval process to write off any other debt.

Target 17 – health and safety – 'lost day accidents' (old – not included in 2009/10 year)

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 'lost days accidents' less a 5% reduction.

Sources, assumptions and limitations

H&S statistics are returned by all Directorates / Functions through the Safety Advisory Officers.

Target 17 – health and safety – ‘RIDDOR ACCIDENTS’ (new – included in 2009/10 going forward)

Purpose

To monitor accident trends and thus allow NI Water to take positive action to reduce accidents at work and report on progress, in the required manner, to the Regulator.

Parameters of target

This Target includes accidents which are reported within 24 hours, as required under NIW H&S accident reporting procedures, and which result in over 3 day’s absence immediately following the date of the accident.

Measurement of target

This RIDDOR target is equivalent to an 18% reduction on the average out-turn of the previous three years, as reported to the Regulator, and is in line with NI Water’s “Zero Accident Ambition”.

Sources, assumptions and limitations

H&S statistics are reported by all Directorates / Functions to the Safety Advisory Officers, who gather and collate H&S statistics for monthly reporting to the Board and annually to the Regulator.

Target 18 – 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 ‘Oracle’ HR IT Management System.

Sources, assumptions and limitations

HMRS system was replaced in 2008/09.

Target 19 – 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 staff attend for work against the total number of days available for work.

Assumptions and limitations

Excludes temporary staff.

Target 20 – Staff engagement

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 the distribution of paper surveys to the front line staff who currently do not have the technical access to the survey.

Target 21 – 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.

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

Compliance assessment is facilitated by a random sample programme which means that a specified number of samples ate collected from randomly selected addresses. Therefore the MCZ comparison year on year is dependant on selecting a consistent representation of customer addresses each year.

Target 22 – 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 21 but only for Turbidity, Iron and Manganese parameters. Continuation of the mains rehabilitation programme assumes a gradual improvement in Turbidity, Iron and Manganese. The random nature of the sample programme is most evident in measurement of Iron, which is one of only three parameters measured in OPI TIM. It is therefore statistically more difficult to measure improvements year on year.

Target 23a and 23b – 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 23a relates to the percentage of the 279 wastewater treatment works (WWTW) whose effluent quality complies with the registered discharge standards set by NIEA. Target 23b relates to performance of the same WWTWs but measurement is against the population equivalent served by compliant works. Performance is assessed on a calendar year basis.

Measurement of target

Samples are taken at each wastewater treatment works relating to the population equivalent served by the works. Laboratories analyse samples for those parameters included in the Registered Discharge Standard. 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 Registered Discharge Standard. 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 23a, 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 23b, the population equivalent served by compliant works as a percentage of the total population equivalent served is calculated. The population equivalent is based on Asset management Plan figures.

Assumptions and limitations

The Water Order Consents are issued by NIEA who make the assessment of which Wastewater Treatment Works meet the standards of the Water Order Consents. The Population Equivalent is based on the Asset Management Plan.

Target 24 – 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 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 NIEA who make the assessment of the number of Wastewater Treatment Works meeting the standards of the Urban Wastewater Treatment Regulations.

Target 25 – pollution incidents

Purpose

To provide a means of monitoring the number of High and Medium pollution incidents attributed to NIW by NIEA.

Parameters of target

Target relates to the number of High and Medium pollution incidents attributed to NI Water by NIEA in a calendar year. For 2007 the target was originally set as a percentage reduction on the average number of incidents over 2004/06. Taking into account annual fluctuations in pollution incident numbers and that NI Water was subject to the full NIEA regulatory regime after losing crown immunity on 1st April 2007, experience has demonstrated that this methodology was not appropriate. Numeric target is now set on an annual basis.

Measurement of target

NIEA provide a monthly audit indicating High, Medium and Low pollution incidents that they have attributed to NI Water.

The number of High and Medium pollution incidents attributed to NI Water is based on NIEA classifications. NI Water however can challenge the NIEA initial classifications and audited samples relating to the 2009 outturn.

Target 26 – capital works programme

Purpose

To provide a means of monitoring progress of the 2008/09 capital works programme in terms of timing and expenditure.

Parameters of Target

Target relates to the achievement of completion dates for projects costing more than £250,000 included in the 2008/09 capital works programme.

Measurement of target

The target relates to schemes completed during 2008/09. Information is obtained from the Project Sponsor responsible for each project.

Sources, assumptions and limitations

Projects are limited to those with a total estimated cost greater than £250,000. The target for 2008/09 was 90% completion.

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