northern ireland water

Annual Report and Accounts
for the year ended 31 March 2011

Northern Ireland Water Limited
Annual Report and Accounts
for the year ended 31 March 2011

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

on

26 July 2011

This document is also available on our website at www.niwater.com

Any enquiries regarding this document should be sent to us using the contact details on the back cover of this report.

At a glance

Best ever drinking Water and Waste Water compliance The mean zonal compliance for drinking Water quality was 99.81% in 2010[1]. The population equivalent served by compliant Waste Water treatment works was 95.9%. This is the best ever Water and Waste Water compliance recorded in Northern Ireland.	**Improving our service** We recognise that the past year has been very challenging for ourselves and our customers. The unprecedented freezing weather conditions in December 2010 followed by the rapid thaw resulted in widespread leakage of Water from the system. Around 20% of that leakage came from our own network with 80% coming from customers' Water pipes[2]. We are taking on board the recommendations made by the Utility Regulator (UR) to improve our response in future, particularly in the areas of leadership and communication, and are currently working to have them implemented.
Transforming the business Delivered one of the largest business change programmes in the UK over the 2007-10 period. We are continuing the transformation process through the three year regulatory Price Control period (PC10) ending 31 March 2013. This work is supporting the delivery of efficiencies, cost reductions, improvements to customer service and billing, and improvements to data quality.	**Working more efficiently** Reduced the operational cost efficiency gap between the leading English and Welsh Water companies by 9% over the 2007-10 period, delivering £53.8m of efficiencies. The capital cost efficiency gap is 17%[3]. Our focus on efficiencies continued in 2010/11, contributing towards the out performance by circa 5% against the budgeted operational cost base of £210.6m[4]. The projected operational cost efficiency gap is 26%[5] by 2012/13. The delivery of efficiencies is benefiting our customers - we held increases in charges for non-domestic customers for 2011/12 to below inflation.
Investing in our infrastructure In excess of £1.1 billion[6] has been invested since the formation of NI Water on 1 April 2007. A further £337m[7] is scheduled for investment by 31 March 2013. This investment is delivering real benefits for our customers, the environment and the local economy.	**Working to reduce our carbon footprint** The treatment of Water and Waste Water is a very energy intensive process and makes us one of Northern Ireland's largest users of electricity. We are also heavily dependent on the use of energy intensive construction materials and chemical products in order to build and maintain and operate our technically advanced treatment processes and plants. To combat this impact on the environment, we now procure 13% of our electricity from renewable sources and self generate a further 1%. We also participate in the UK Government's mandatory Carbon Reduction Commitment (CRC) energy efficiency scheme aimed at improving energy efficiency.

[1] These targets are reported on a calendar year basis.
[2] http://www.uregni.gov.uk/uploads/publications/Final_CP_Report_web.pdf
[3] http://www.uregni.gov.uk/uploads/publications/Final_CP_Report_web.pdf. Based on results of latest cost base analysis (2007/08).
[4] The operational and capital cost efficiency gaps will be further assessed over the PC10 period in conjunction with the UR. Based on UK Generally Accepted Accounting Practice (UK GAAP) in line with the Final Determination.
[5] This projection is based on an internal analysis and may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.
[6] £1,013m over the 2007-10 period (including £232m of PPP investment) plus £157m in the year ended 31 March 2011. Based on UK GAAP in line with the Final Determination.
[7] £189m in 2011/12 and £148m in 2012/13. UK GAAP based in line with Final Determination.

About this report

We are pleased to present our Annual Report and Accounts for the year ended 31 March 2011.

This document includes the following:

- Commentary on our business performance including description of significant industry trends that are likely to influence future prospects;
- Statutory Accounts covering both our regulated[8] and non-regulated businesses prepared under International Financial Reporting Standards (IFRS); and
- Regulatory Accounts for our regulated business prepared under the Regulatory Accounting Guidelines (UK GAAP based).

We hope that this report will be of use to all our stakeholders and would welcome feedback to develop our future reporting. Our contact details are on the back cover of this report.

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

Contents

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 and Accounts should be construed as a profit forecast.

Introduction to NI Water

We aim to continually focus on our customers by cost effectively offering quality, responsive services.

NI Water is one of Northern Ireland's largest companies and is responsible for the delivery of Water and Sewerage services in Northern Ireland[9]. We provide a vital service which supports the health, environment and local economy of the areas we serve.

During 2010/11:

806,500 households

We delivered clean safe drinking Water to approximately 806,500 households and businesses.

625 million

We supplied customers with approximately 625 million litres per day of good quality drinking Water through approximately 26,500 km of Water mains.

308 million

We collected some 308 million litres per day of Waste Water from around 608,000 households and businesses connected to the Sewerage system.

14,750 km

We transported sewage through approximately 14,750 km of sewers to works where it was treated and safely disposed.

8,615 hectares

We managed approximately 8,615 hectares of land over 5,182 sites. We are one of the largest landowners in Northern Ireland.

£157m investment

We invested around £157m[10] in our infrastructure to improve drinking Water quality, protecting our environment and supporting our local economy.

302 gigawatts

We are one of the largest users of electricity in Northern Ireland using around 302 gigawatts per annum.

1,289 employees

We provide our services using 1,289 full time equivalent employees.

[9] NI Water was appointed the sole provider of Water and Sewerage services in Northern Ireland on 1 April 2007. These functions were previously undertaken by NI Water Service, an agency within the Department for Regional Development.
[10] UK GAAP based in line with Final Determination.

Chairman's Foreword

Transforming the business

Since taking up my post as Chairman of NI Water on 24 March 2011, I have been impressed with the continued progress in the transformation of NI Water towards a modern, customer focussed, regulated Water utility company.

It is important to recognise the context in which the organisation operates. Other UK Water companies have benefited from around 20 years of investment in their Water and Sewerage infrastructure under a regulatory system that incentivises performance. In contrast, the Water industry in Northern Ireland only became subject to economic regulation and its associated incentives in April 2007 having previously operated as a Government Agency. It should also be noted that NI Water operates both as a company and as a Non-Departmental Public Body (NDPB), resulting in further challenges for the organisation in planning and managing both our investment and financial activities.

The completion of the three year Strategic Business Plan period in March 2010 represented the first major step in the transformation process. We started that process with an operational efficiency gap of 48.7%[11] in 2007/08 between ourselves and the most efficient Water companies in England and Wales. Over this three year period, we improved our levels of operational efficiency to reduce the gap to 39.7%[12] in 2009/10. The projected operational cost efficiency gap is 26% by 2012/13[13]. We are also working to reduce our capital cost efficiency gap of 17%[14].

Strategic areas of focus

This report sets out our performance during the first year of our three year regulatory Price Control period (PC10) ending on 31 March 2013. Our focus over this period remains on prioritising customers through improving how we deliver our service, operating more efficiently and investing in our infrastructure.

- **Improving how we deliver our service**

  Whilst, in 2010/11, we achieved the highest levels of quality in drinking Water and Waste Water compliance ever seen in Northern Ireland, we recognise that the past year has also been very challenging for ourselves and our customers. The unprecedented freezing weather conditions in December 2010 followed by the rapid thaw (known as the Freeze/Thaw) resulted in widespread leakage of Water from the system. Around 20% of that leakage came from our own network with 80% coming from customers' Water pipes[15]. The UR recognised that both our assets and front line operational staff performed well during the incident despite difficult operating conditions and frost damage to some plant[16]. We are working to implement the recommendations made by the UR in order to improve our response in future, particularly in the areas of leadership and communication.

---

[11] http://www.uregni.gov.uk/uploads/publications/Final_CP_Report_web.pdf
[12] Provisional figure.
[13] This projection is based on an internal analysis and may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.
[14] http://www.uregni.gov.uk/uploads/publications/Final_CP_Report_web.pdf. Based on results of latest cost base analysis (2007/08). The gap will be re-measured as part of the next regulatory price control process.
[15] http://www.uregni.gov.uk/uploads/publications/Investigation_report_into_the_freezethaw_incident_2010-11.pdf
[16] http://www.uregni.gov.uk/uploads/publications/Investigation_report_into_the_freezethaw_incident_2010-11.pdf

- **Operating more efficiently**

  Over the past year, our focus on efficiencies contributed towards the out performance against the 2010/11 budgeted operational cost base of £210.6m[17] by circa 5%. Our profit after tax for 2010/11 of £80.5m[18], is £43.2m[19] higher than 2009/10 primarily due to the transition to IFRS[20] but also as a result of continued focus on cost control. These efficiencies are benefiting customers - we held increases in charges for non-domestic customers in 2011/12 to below inflation[21].

- **Investing in our infrastructure and our environment**

  Over the past year we continued to invest in our Water and Waste Water systems. In excess of £1.1 billion[22] has been invested since the formation of NI Water on 1 April 2007. A further £337m[23] is scheduled for investment by 31 March 2013. This investment is intended to deliver real benefits for our customers, our environment and our local economy.

Finally, I would like to thank my Board colleagues for their support in determining the strategic vision for the Company, the management team for their continuing determination in delivering on that vision and most importantly, our employees for their commitment and fortitude in continuing to improve the quality of service at a time of significant transformation.

I commend this report as a reflection of that commitment.

Seán Hogan
Chairman

6 July 2011

[17] UK GAAP based in line with the Final Determination.
[18] Measured on an IFRS basis (see footnote 20).
[19] Measured using an IFRS basis for 2010/11, and a UK GAAP basis for 2009/10.
[20] International Financial Reporting Standards.
[21] Based on retail price inflation.
[22] £1,013m over the 2007-10 period (including £232m of PPP investment) plus £157m in the year ended 31 March 2011. UK GAAP based in line with Final Determination.
[23] £189m in 2011/12 and £148m in 2012/13. UK GAAP based in line with Final Determination.

Chief Executive's Foreword

Performance for 2010/11

The focus for 2010/11 was on our core business – the delivery of the most cost efficient and high quality Water and Waste Water services possible. This involved targeting the following:

- Improved customer satisfaction by reducing the time taken to respond to our customers and by better understanding the root cause of their complaints;
- Reduction in costs and improvement in the efficiency of NI Water through a series of corporate projects and initiatives targeted at delivering operating efficiency;
- Delivery of further improvements to our levels of service in relation to Water and Waste Water standards, and reducing leakage levels; and
- Improvements to our control environment by implementing the recommendations of the Independent Review Team (IRT).

Customer satisfaction

Improvement in customer service and confidence continues to be a major priority for the organisation following the Freeze/Thaw. This resulted in around 450,000 customers in 215,000 properties across Northern Ireland having their Water supplies interrupted. The majority of these customers were on rotational supply, which was introduced for the first time in Northern Ireland to conserve Water supply. We have committed to make improvements across a number of areas which include supply failures, contingency planning, communication, governance and leadership.

Cost reduction and efficiencies

We have continued to control our operating costs in line with the challenging efficiency targets set by the UR. The cost control measures used during 2010/11 included a reduction in our headcount and overtime, the use of new approaches to the procurement of electricity and investments in technology to lower the expense of out-of-sewer flooding.

Levels of service

We invested a further £157m[24] in 2010/11 to improve our infrastructure and achieve the highest ever Water and Waste Water quality standards for our customers. However, an area of concern to customers and stakeholders is the volume of Water lost from our Water infrastructure through leakage. The twelve month rolling average leakage figure for March 2011 is 177.0Ml/day[25], which although 2Ml/day above our target, represents a significant achievement in the aftermath of the December incident. We are continuing to work with the UR to improve the process and systems used to measure and report against our leakage targets.

Improvements to our control environment

Good progress has been made in implementing the recommendations for improvements to governance made by the IRT and the Public Accounts Committee[26]. This has resulted in a continued focus on procurement governance and the development of an improved control environment appropriate to an organisation in receipt of our level of public subsidy.

The requirement to have an additional audit opinion, on regularity of spend and income in 2010/11 is supporting improvements in this area. The qualified audit opinion on regularity of spend reflects the impact of these issues which we are working to address during the PC10 period.

---

[24] UK GAAP based in line with Final Determination
[25] Mega litres per day
[26] http://www.niassembly.gov.uk/public/2007mandate/reports/2010/report_3740_10_11R_vol1.htm

Looking forward to 2011/12

Our focus over the coming year will continue to be on improving customer satisfaction and confidence in the NI Water brand, raising staff morale and embedding the lessons learned from recent incidents. During 2011/12 we will continue to deliver efficiencies and improve our levels of service by:

- Working to implement the recommendations arising from the reports on the Water supply issues faced over the winter period. This is an important step in rebuilding customers' confidence in our organisation;
- Generating further efficiencies through a range of methods and projects including in-sourcing and making better use of in-house skills; reducing operational contractor costs; and
- Investing a further £189m[27] in our infrastructure to ensure that we continue to deliver an improved level of service for our customers.

In closing, I would also like to thank the Board, my management team and particularly our employees for their dedication and efforts over the past year. In particular, the efforts of staff during the freezing weather conditions were commendable with our teams in the field experiencing some of their highest ever workload under very challenging conditions.

Trevor Haslett

Trevor Haslett
Interim Chief Executive

6 July 2011

[27] UK GAAP based in line with Final Determination

Performance Highlights

We have included below an overview of the areas in which we performed well along with areas in which we under-performed[28]. The 2010/11 period represents another step in the transition towards transforming the organisation into a modern, efficient Water utility. This process will take time but we have built on past performance and continue to make positive progress in closing the performance gap.

Transformation…delivering business improvements

Achieved the objectives of the 2010/11 Business Improvement Programme which included the following:
• Delivered against the 2010/11 operational cost efficiency targets;
• Addressed the legal undertakings and improved the accuracy of underlying data; and
• Deployed systems and technology that will enable further reduction in operational costs, and improved our regulatory and environmental compliance.

Compliance…investing for the future

Areas of out performance	Areas of underperformance
Produced the best ever results for Northern Ireland for drinking Water quality and discharges to the environment.	The OPI TIM[29] Water quality performance measure was below the target. The ongoing Mains Rehabilitation Programme remains the key to reduction in iron and turbidity exceedances, which arise because of the condition of the distribution system.
Reduction in the level of pollution incidents attributed to NI Water to 46 against a target of 54.	
Undertook around £157m[30] of investment in our Water and Waste Water infrastructure in 2010/11.	

Customers…delivering high-quality customer services

Areas of out performance	Areas of underperformance
99.98% of written complaints were closed within ten working days against a target of 98.50%.	Performance against the targets on supply interruptions, response to billing and telephone contacts, and leakage reduction was adversely impacted by the Water supply issues following the freezing weather conditions in December 2010. We are implementing recommendations made by the UR to mitigate the impact of similar weather events in the future.
96.11% of metered customers received at least one bill based on a customer or Company meter reading against a target of 95.00%.	
Removing 283 properties from our register of properties receiving inadequate pressure against a target of 220.	During 2010/11, we adopted more robust processes for determining properties affected by sewer flooding which has resulted in increased numbers of affected properties. We have pro-active maintenance programmes in place to ensure our sewer network operates to its optimum. However, the vast majority of Sewer Flooding Other Causes (FOC) is caused by blockages on our sewer network, most of which are caused by inappropriate materials being put down the sewer network. We are becoming more pro-active in educating customers in areas where we have known problems using various media campaigns and leaflet drops.
Completed the development of full reporting capability for internal flooding incidents in April 2011 and are working towards full external and internal flood reporting capability by April 2013.	

[28] A full listing of the performance against our Key Performance Indicators (KPIs) is contained at ***Appendix A.***
[29] Operational Performance Indicator for turbidity, iron and manganese.
[30] UK GAAP based in line with Final Determination.

Cash…creating value for money through a sustainable service

Areas of out performance	Areas of underperformance
Controlled our operating costs in line with the challenging efficiency targets. Outperformed the 2010/11 budgeted operational cost base of £210.6m[31] by circa 5%.	The days' sales outstanding and debtor days' performance fell below targeted levels. The debtor recoverability process is being reviewed including our communication with debtors.
Increased our profit after tax from £57.9m[32] in 2009/10 to £80.5m in 2010/11, despite continuing economic pressures on income and with further focus on reducing expenditure.	
Successfully implemented the transition from UK GAAP to IFRS for our 2010/11 Statutory Accounts, ahead of most of the UK Water sector.	Reduction in operating margin primarily due to lower level of income due in part to lower levels of consumption. The reduction has been offset in part by improved control of operating costs.

People…building the capability to deliver

Areas of out performance	Areas of underperformance
Improved health, wellbeing and safety of all employees resulting in improved attendance levels and reduced accidents. Surpassed our 2010/11 Health and Safety target, with an in-year record of 196 days without a RIDDOR[33] (3 day) accident. In year, all time UK-wide industry best performance record of only 3.06 RIDDOR incidents per 1,000 employees. Gold Award at RoSPA's[34] Occupational Health and Safety Awards.	The employee response rate to our employee survey was below target but showed an improvement from 2009/10.

External stakeholders…building strong relationships and operating responsibly

Operated within the requirements of our Regulatory Licence and Shareholder Governance Letter.
Worked with the UR, DRD and other stakeholders to agree the Price Control 2010.

Corporate social responsibility…supporting communities, the environment and the economy

We continued with our significant education programme, educating schools and community organisations on Water efficiency, Water for health and environmental protection and conservation.
Achieved an overall score of 83% in the Arena Environmental Benchmarking Survey[35]. The Northern Ireland average was 72% and the sector average was 77%.
Our investment programme is benefiting our local economy during difficult economic conditions.

[31] UK GAAP based in line with the Final Determination.
[32] Based on IFRS.
[33] Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (Northern Ireland) 1997.
[34] The Royal Society for the Prevention of Accidents.
[35] The Northern Ireland 12th Environmental Benchmarking Survey,
http://www.bitc.org.uk/northern_ireland/what_we_do/planet/survey_ni.html

Strategic Overview

The key theme of the PC10 period is to take a customer-centric approach, so that emphasis on compliance as a goal in itself is replaced by compliance with quality standards as one of the services offered to our customers. Our approach puts customers first, reflecting strategic focus and culture, with the key themes of customer, cash, compliance and people underpinning overall customer focus. ***Figure 1*** shows our strategic objectives for PC10.

Figure 1 - NI Water's strategic objectives and how they will be delivered.

	Objective	How NI Water will deliver the Objectives in 2010-13
Customer	Improve customer satisfaction	• Improve access to services whereby customers can have their requests addressed via a number of channels. • Work with customers to improve our data, accuracy and reliability of bills.
	Better understand the cause of complaints	• Analyse data to identify the root cause of complaints, investigate and implement remedy. • Develop targets on the number and frequency of repeat complaints and 'holding' responses.
Cash	Reduce costs and improve efficiency	• Plan to maintain threshold cover against key financial ratios without need for a revenue adjustment. • Build up provision for cost shocks. • Plan against a sustainable cost of capital. • Ensure efficient non-domestic customer billing. • Deliver operating efficiencies in both Water and Sewerage. • Deliver capital efficiencies for the next three years.
	Improve the control environment of NI Water	• Implement the recommendations for improvements to governance made by the IRT and the Public Accounts Committee (PAC).
People	Develop the capability to deliver	• Ensure proper application of the appraisal system to provide clarity on personal objectives and capture staff development needs. • Manage people to achieve high personal and team performance. • Promote and monitor core capability levels among NI Water staff and actively seek improvement. Improve employee engagement across the Company at all levels to clarify and achieve business goals.
	Champion health and safety	• Improve the currently good level of health and safety even more. Set a vision for zero 'RIDDOR[36]' accidents by reducing accident rates by 25% over 2010-13.
	Efficient and effective resourcing	• Attract, retain and motivate highly engaged and performing employees.

[36] The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (Northern Ireland) 1997.

Compliance	Create data quality culture	• Through training and promotional material, ensure that all our employees view it as their responsibility to provide reliable, accurate and timely data. • Focus on improving data grades through improved collection and data capture processes.
	Deliver improvements in Water and Waste Water	• Achieve compliance with the Drinking Water Inspectorate (Northern Ireland) (DWI) requirements for drinking Water. • Complete schemes required by the Northern Ireland Environment Agency (NIEA) to achieve 100% compliance with the Urban Waste Water Treatment Directive. • Make substantial improvements to compliance against other legal requirements and reduce significant pollution incidents during 2010-13. • Dispose of sludge from our treatment works cleanly and safely. • Maintain serviceability of our assets.
	Develop an effective and controlled business	• Further transformation of the business' systems and processes.
	Deliver stakeholder requirements	• Understanding and meeting UR requirements for monitoring in 2010-13 (Annual Information Return) and for the post-PC10 price control review. • Understanding the requirements of NIEA for environmental compliance and DWI for drinking Water quality. • Understanding and meeting DRD's requirements as shareholder of NI Water. • Understanding and meeting the expectations of other key stakeholders (annual report, customer literature, environmental reporting, submissions to DWI and Health and Safety Executive (HSE))
	Focus on data quality and systems	• Delivery of the Data Quality Programme. • Cleanse existing data to improve the quality and accuracy of customer billing records.

The strategic objectives developed for the PC10 Business Plan evolved from a lengthy involvement by NI Water in stakeholder working groups; adoption of the priorities detailed in the DRD Social and Environmental Guidance, and an awareness of the results of the customer survey commissioned by the Company and carried out by the Consumer Council for Northern Ireland (CCNI). From these strategic objectives, a number of Key Performance Indicators (KPIs) were developed. These are reproduced in ***Appendix A,*** with greater detail given in ***Appendix B.***

Operating and Financial Review

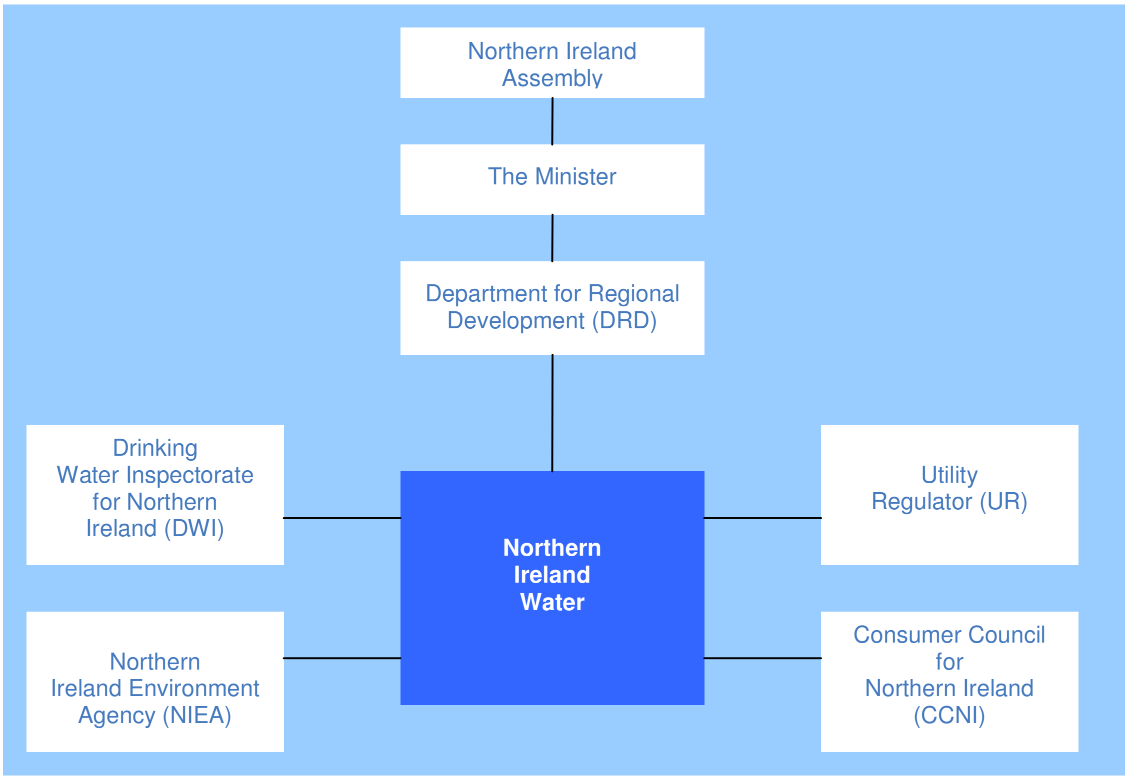
In preparing the Operating and Financial Review, we have sought to take into account, where considered appropriate, the best practice set out in the UK Accounting Standards Board's 'Reporting Statement: Operating and Financial Review' 2006.

Industry overview

The majority of NI Water's activities are not undertaken in competitive markets and are therefore subject to economic regulation by the UR. NI Water's revenue requirements, the amounts charged to customers and our performance outputs are set by the UR through a Price Control Process. The current Price Control covers the three year period to 31 March 2013.

Unlike other Water companies in England and Wales, NI Water operates under a public ownership model. Our sole shareholder is the DRD, one of the 12 Northern Ireland Government departments. NI Water is classified as a Non-Departmental Public Body (NDPB) for public expenditure purposes which requires our regulatory funding requirements to be managed within the public expenditure funding constraints. Further details are provided below under 'regulatory factors'.

Figure 2 – Water industry structure in Northern Ireland.



Further details on the role of our Stakeholders are contained in pages 28 to 29.

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 economies;
- Change in demand due to changes in our customer base; and
- Unexpected changes in input cost inflation.

The weak economic conditions over the last twelve months have had an impact on the financial performance of NI Water. Consumption levels have decreased further leading to an income reduction from customers with measured and unmeasured Water supply. Although very uncertain still at this point, it is predicted that Northern Ireland's economy will show relatively flat spending growth in 2011 as we recover from recession. This would suggest that demand should remain relatively constant.

Our effective and efficient management of the cost base enabled these budgetary pressures to be absorbed by the Company during 2010/11.

Regulatory factors

The Business Plan for 2010-13 (PC10) was agreed in December 2010 following acceptance of the amended final settlement from the UR. However, the NDPB status of the organisation imposes public expenditure funding restraints on the organisation. This is reflected in a Memorandum of Understanding between DRD and the UR which reflects our public ownership model and makes provision for reviews of our funding and output targets to reflect changes in public expenditure allocations. A number of risks to the business have therefore been identified to our Stakeholders.

The Freeze / Thaw Incident - December 2010 to January 2011.

A prolonged period of very heavy snowfall with continuous, unprecedented freezing conditions across Northern Ireland began on 17 December 2010. The duration of the severe weather followed by a rapid thaw resulted in around 450,000 consumers in 215,000 properties across Northern Ireland having their water supplies interrupted. The situation was exacerbated by a number of non-domestic and domestic properties being unattended for an extended period over the Christmas / New Year holidays with the result that leaks within properties went undetected for a number of days. During the incident, there was much criticism of the way NI Water dealt with the situation with the result that the Executive Committee of the NI Assembly asked the UR to carry out an investigation and report to the Executive Committee of the Northern Ireland Assembly.

NI Water was conscious of failures in some areas of response to the incident and in order that these might be fully understood and measures put in place to prevent any future occurrence, fully supported and assisted the UR in carrying out the investigation. In the Report[37], the UR concluded that the weather had been of an exceptional nature (1 in 100 year event in established records) and that around 80% of the additional water demand caused by the freeze / thaw leaked from domestic and business water pipes. The Report also acknowledged the dedicated work done by NI Water staff and others in restoring services to customers in extreme weather and difficult operating conditions. However, a number of failures were identified. Key among these were failures in communication with customers, leadership and preparation for a crisis of this magnitude. The Report makes 56 recommendations which we are analysing in detail and which we have already begun to implement. We are committed to working closely with the UR and our other stakeholders to do all possible to prevent a repeat of this incident.

---

[37] http://www.uregni.gov.uk/uploads/publications/Investigation_report_into_the_freezethaw_incident_2010-11.pdf

Transformation

…delivering business improvements

Background to the transformation process

Work continued in 2010/11 to transform our organisation in to a modern regulated utility. The transformation objectives for 2010/11 included the following:

- Enable delivery of the 2010/11 operational cost efficiencies and prepare the way for the 2011/12 operational cost efficiency target;
- Addressed the legal undertakings and improve the accuracy of underlying data; and
- Deploy systems and technology that will enable further reduction in operational costs and improved regulatory/environmental compliance.

The key themes of enhancing customer service, reducing operational costs and improving data quality will continue to drive business improvement in 2011/12 and for the remainder of the PC10 period.

Delivery of transformation in 2010/11

The Business Improvement Programme comprised seven work streams:

- *Operational cost efficiencies*: we have continued to reduce headcount and overtime by improving focus and control. A new 'best practice' methodology for the procurement of electricity has been implemented whilst investments in technology have lowered the expense of out-of-sewer flooding. Budget Champions have assisted in managing cost reductions by taking an active role in challenging the need to spend; the specification; introducing tighter controls and buying better. These activities have helped achieve our cost improvement targets in 2010/11 whilst also initiating activity to deliver further cost reductions in the PC10 period;

- *Customer Services*: we are assessing the root causes of call volumes, complaints, billing enquiries and billing contacts to further improve response rates and to reduce overall volumes, particularly following the customer supply issues in December 2010. This has resulted in NI Water achieving our metered billing target for the first time;

- *Data quality*: we have continued to improve data quality through development of a data ownership and measurement tool and cleansing of meter data and data on customer properties. The UR appointed an independent Suitably Qualified Individual (SQI) to assess whether NI Water can be released from the data quality legal undertakings;

- *Innovation:* we continue to investigate the increased use of renewable technologies, for example an initial planning application is ongoing for a potential wind turbine development at one of our Waste Water treatment sites, whilst continued focus is being given to the use of remote monitoring technology on our network;

- *People:* we are working to provide ongoing learning and development for our staff and have delivered a number of in-house training and development courses;

- *Information Technology* – we have made significant strides to improve our disaster recovery position through the implementation of new hardware and communications technology; and

- *Finance and Regulation* – we are working to improve the systems to record the costs of maintaining our assets and have achieved registration with the UK Government's mandatory Carbon Reduction Commitment (CRC) energy efficiency scheme.

Delivery of the transformation in 2011/12

The transformation objectives for 2011/12 include the following:

- Implement recommendations resulting from the UR's Freeze/Thaw report and internal lessons learned;
- Deliver a programme of change to enable the business to achieve the operational cost efficiency targets agreed with the UR;
- Improve customer service and billing; and
- Increase organisational capability in the areas of data quality; IT and Finance and Regulation.

The 2011/12 Business Improvement Programme consists of 6 work streams; each comprised of a number of projects some of which are ongoing from 2010/11 whilst others are new projects. The 6 work streams are:

- *Major Incident Review*: this work stream will provide overall progress reporting on delivery of actions contained in the numerous internal and external reports on the Freeze / Thaw in 2010/11;

- *Customer Service:* the customer service work stream will build on the progress made in 2010/11. The work stream will manage projects grouped around the key themes of consistent customer service, effective billing and efficiency in customer service;

- *Operations:* this work stream will focus on the delivery of projects relating to cost improvement, metering and service improvement. A wide range of projects are planned to be delivered focusing on cost reduction through initiatives such as in-sourcing and making better use of in-house skills, reducing overtime and reducing operational contractor costs;

- *Data Quality / IT:* this work stream will build on the progress made last year. The case for release from the data quality undertakings is being considered by the UR. In 2011/12, the work stream will focus on concluding the meter data cleanse project and on reconciling our property data across the key NI Water systems;

- *Corporate Structure and Resources* - this work stream will work to identify our future target operating model and associated structure. This will facilitate future resourcing and efficiency plans; and

- *Finance and Regulation* - the Finance and Regulation work stream will continue to progress ongoing projects to deliver a costing model and an upgrade to Oracle Financials. The work stream will also manage planning for the next regulatory price control.

Customers

…providing quality service to customers

Strategic objective

Our business plan for the PC10 period set out the following strategic objectives for customers:

Improve customer satisfaction	• Improve access to services whereby customers can have their requests addressed via a number of channels. • Work with customers to improve our data, accuracy and reliability of bills.
Better understand the cause of complaints	• Analyse data to identify the root cause of complaints, investigate and implement remedy. • Develop targets on the number and frequency of repeat complaints and 'holding' responses.

We have set out below the performance against these strategic objectives across the 2010/11 period.

Customer billing and contact

Customer surveys

We are committed to providing a high quality of service to customers and, to this end, customer satisfaction is important. Quarterly independent market research, first introduced in 2007/08, continues to be carried out on the Company's behalf, through telephone surveys of 100 customers who have called the Company for any reason.

The surveys were completed in quarters 2 to 4 of the reporting year, achieving an overall average score of 4.59 out of 5. As the Water utilities in England and Wales now use a different approach, and Scottish Water does not publish their customer satisfaction results, we are unable to provide a ranking for 2010/11. These independent quarterly surveys will continue during the 2011/12 year.

We will also be investigating the introduction of a Customer Satisfaction and Tracking (CSAT) solution that will allow surveys to be run on a more regular basis. This solution uses voice recognition and recording technology to capture feedback directly from customers without the agent's knowledge.

Supply interruptions

For the second year in succession, the winter weather has had a significant impact on NI Water's pledge to reduce the percentage of properties affected by unplanned interruptions to the Water supply exceeding 6 hours. December was the coldest calendar month for over 100 years and saw unprecedented numbers of 'no Water' complaints taken by the Company's Customer Relations Centre and numbers of properties affected by unplanned interruptions. At the height of the operational difficulties on 29 December, approximately 117,000 properties were without supplies, around 95,000 as a result of supply constraints, 18,000 as a result of service reservoir drain-down and 3,000 as a result of burst mains and other causes. Many properties experienced more than one distinct interruption when supply rotation was introduced to allow service reservoir levels to recover.

The impact of the 2009/10 Freeze/Thaw was greatest in the rural northwest parts of Northern Ireland. In 2010/11, the impact was more widespread and numbers of affected properties were particularly high in urban areas such as Belfast.

Throughout the year a number of other incidents, including Water supply interruptions in the Kilkeel area in early February 2011, were dealt with and our Incident Plan Procedures were activated in response to these incidents.

We have embraced the recommendations made by the UR to improve our response in future and are currently working to have them implemented.

Customer contact

During 2010/11, a total of 1,040,555 calls were made to the advertised NI Water telephone numbers, of which 300,722 were answered. The above figures reflect the impact of the Freeze/Thaw. On the 28 December 2010, NI Water took substantially more call attempts in one day than it did in the whole of 2009/10.

The exceptional level of call volumes during this incident had an adverse impact on service levels and we missed our 2010/11 targets on 'calls not abandoned', 88.19% against a target of 99.00%, and 'calls not engaged', 32.77% against a target of 99.90%.

Our performance, excluding the freeze/thaw, would have been 97.14% against the 'calls not abandoned' target and 100% against 'calls not engaged' target.

Customer complaints and billing

We witnessed an increase in the number of written complaints received during 2010/11 due to the Freeze/Thaw, following which volumes in February and March 2011 remained higher than before the incident. Despite the increased volumes, we exceeded the 98.5% target with a performance of 99.98%. However, the 'Response to billing contacts' (DG6) performance of 98.87% missed the target of 99.90%, due to the reallocation of resources to assist within the Contact Centre during the Freeze/Thaw.

During 2010/11, NI Water worked with CCNI to address 24 recommendations arising out of the 'Tapping into Customer Views'[38] research on Water quality, flooding, environmental and customer services. An update on this report was planned during 2010/11 but was postponed, by CCNI, due to the Water crisis. In February 2011, CCNI published its 'Left High and Dry' report, containing six high level recommendations. The scope of Tapping into Consumer Views may be extended to include improvements following the Freeze/Thaw in 2010/11.

Following the previous year's pilot, CCNI carried out a second annual complaints review in March 2011. This review assessed a sample of complaints received during the year and during the Freeze/Thaw. The draft report has been submitted to NI Water and is being reviewed.

[38] http://www.consumercouncil.org.uk/filestore/documents/Web_report.pdf

Codes of Practice

We launched our Priority Services service in February 2009. At the end of March 2010, 546 customers were on the Special Assistance Register.

We have created a dedicated project to achieve the following key objectives:

- Increase the number of individual customers on the Customer Care Register (previously the Special Assistance Register) to 2,000 by the end of December 2011[39];
- Develop a list of key organisations that look after or house vulnerable customers, such as hospitals and nursing homes;
- Develop call plans for both groups during an incident;
- Develop the NI Water website to ensure it is consistent and accessible; and
- Participate in the Vulnerable People Task Group setup by the Civil Contingencies Group NI.

During 2010/11, we worked with CCNI to agree the review of Codes of Practice on Water supply services, Sewerage services, dealing with leaks, complaints as well as further development of our customer care register. This included special assistance and critical care.

We will continue to work with CCNI throughout 2011/12, in our shared endeavours to enhance the customer experience. This will include consultation on tasks linked to our customer transformation projects and the annual complaints assessment. As part of our customer facing improvement programme, we will be working closely with CCNI on the format of our bills with a view to making them easier for our customers to understand.

Non-domestic charges

Full measured Sewerage charges were introduced from 1 April 2009. However, as a result of the decision of the NI Executive to defer domestic charges, a new domestic allowance of 190m³ for eligible Sewerage customers was also introduced in 2009/10. Unmeasured Water and Sewerage charges continued 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.

We also mailed a Summary Charges 2010 / 11 leaflet to all non-domestic customers in July 2010.

Metering programme

We continued our programme of installing meters on all new properties with first time connections to the Water supply system, in accordance with existing legislation, and on existing unmeasured non-domestic properties where possible. We will continue the metering of new build properties and first time connections in 2012/13, as well as continuing the programme of meter installations on unmeasured non-domestic properties. All meters installed on domestic premises do not currently generate a charge or bills.

Account Management

During 2010/11, our focus continued to be on the large consumers via the key account management process. However, other customer groups were identified:

- Agricultural sector - we are working towards a more case managed approach, as well as seeking to work in partnership with support groups for the farming sector, including the Ulster Farmers Union; and
- Retail and commercial customers - we are looking at improvements to billing for our large multi site retail customers, helping them to monitor consumption.

[39] We had circa 1,400 on the register (as at June 2011).

We aim to continue this tailored approach across the full customer profile, based on our customers' behaviour and engagement.

Accurate measured bills are central to customer account management and we had a series of performance targets for meter reading and measured billing in 2010/11.

- 95% of bills to be based on actual meter reads; and
- 95% of bills to be issued within 5 working days of a meter reading (including and excluding any that require investigation).

Although the Freeze/Thaw event impacted on our ability to locate or read meters due to the severe weather conditions and diversion of staff to support the incident response team, we still managed to achieve our target for bills based on actual meter reads, with a performance of 96.11%. This is a tremendous achievement given the weather conditions and other demands on meter reading staff, exceeding the target of 95%.

Unfortunately, for measured bills issued within 5 working days of a meter reading (including and excluding any that require investigation), our performance of 90.94% and 92.33% respectively fell below our target of 95% in 2010/11.

In 2011/12 we will be targeting a performance of 98% (excluding any that require investigation and 95% (including any that require investigations) for measured bills issued within 5 working days of a meter reading.

Leakage

Leakage is calculated on a twelve month rolling average. The outturn figure for 2010/11 is heavily influenced by the Freeze/Thaw event of December/January 2010/11. A Category 1 Major Incident was in operation from the 27 December 2010 to the 6 January 2011. The event caused a significant increase in demand for Water supply and at its peak it had increased by over 70% above normal demand. The impact of this increased demand led to significant numbers of customers without a Water supply.

Following the event, a review was undertaken by the UR and external reviewers. A combined report was issued in March 2011 which recognised that the extreme weather conditions had a major contribution towards the situation, and highlighted that defects or usage on customer properties resulted in at least 80% of this increased demand.

The weather conditions had a significant impact on both domestic and non domestic customer properties. Therefore although the recorded twelve month rolling average leakage figure for March 2011 is 177.0 Ml/day, which is 2 Ml/day above target, this is positive in terms of a comparison with the AIR10 value of 186.9 Ml/day.

We are targeting a further reduction in leakage to 171 Ml/day in 2011/12. NI Water has both internal and external leakage detection resources focused on proactive leakage detection. In addition there will be an ongoing emphasis on improving the quality of flow data within the company to assist with improved leakage targeting and reporting. Alongside this capital investment will continue on such areas as pressure management and District Meter Area rationalisation.

Cash

…creating value for money through a sustainable service

Strategic objective

Our business plan for the PC10 period set out the following strategic objectives for cash:

Reduce costs and improve efficiency	• Plan to maintain threshold cover against key financial ratios without need for a revenue adjustment. • Build up provision for cost shocks. • Plan against a sustainable cost of capital. • Ensure efficient non-domestic customer billing. • Deliver operating efficiencies in both Water and Sewerage. • Deliver capital efficiencies for the next three years.
Improve the control environment of NI Water	• Implement the recommendations for improvements to governance made by the IRT and the PAC.

We have set out below the performance against this strategic objective across the 2010/11 period.

Efficiencies

We delivered around £53.8m[40] of efficiencies over the 2007-10 period and continue to control our operating costs in line with the challenging efficiency targets. Over the past year, our focus on efficiencies contributed towards the out performance against the 2010/11 budgeted operational cost base of £210.6m[41] by circa 5%. We will continue to focus on delivering operating and capital efficiencies in the coming year.

Accounting Policies

The financial statements have been prepared in accordance with IFRS for the first time this year. In the process of applying our accounting policies, we are required to make certain judgments, estimates and assumptions that we believe 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

Our Statement of Comprehensive Income as presented on page 65 is summarised in ***Figure 3*** below.

Revenue was £403.2m for the year to 31 March 2011 (2010: £377.4m). Included in revenue was £283.1m (2010: £277.1m) received from DRD (Subsidy £263.2m; Road Drainage Charges £19.9m) - the remainder being measured and unmeasured charges, transfers of assets from customers, connection / infrastructure charges and other third party contributions. The subsidy covered the full domestic charge and the Northern Ireland Executive has decided that this arrangement will remain in place during 2011/12. The final decision on domestic charging for 2012/13 and beyond has not yet been taken by the Northern Ireland Executive.

[40] Based on 2006/07 prices from a 2003/04 base.
[41] UK GAAP based in line with the Final Determination.

Figure 3 – Summary Statement of Comprehensive Income

	Year to 31 March 2011 (£m)	Year to 31 March 2010 (£m)
Revenue	**403.2**	**377.4**
Results from operating activities	**168.4**	138.1
Net finance charges	**(56.2)**	(43.0)
Profit before tax	**112.2**	**95.1**
Taxation	**(31.7)**	(37.2)
Profit after tax	**80.5**	**57.9**
Other comprehensive income	**1.1**	(9.3)
Total comprehensive income	**81.6**	**48.6**

Results from operating activities before interest for the year was £168.4m. Operating costs in 2010/11 of £234.8m (2010: £239.3m) were impacted by a number of factors including impairment loss on assets and higher Public Private Partnership costs as additional sites went live. These were offset by lower material and contractor costs as a result of the continued focus to drive through efficiencies. The tax charge for the year was £31.7m. The effective tax rate for the year to 31 March 2011 was 28.3% (2010 39.1%). The Board will consider a proposal to declare a dividend of £26m in July 2011.

Capital Structure

The Statement of Financial Position at 31 March 2011 as presented on page 64 is summarised in ***Figure 4.*** Total assets increased by 7.3% to £2,087.8m (2010: £1,944.9m). The main movements in the financial position items were increases in property, plant & equipment of £154.7m relating to our commitment to investment in the Capital Works Programme offset by increases in net debt. Our net debt figure was £959.2m at 31 March 2011 (2010: £858.8m). Gearing increased from 44.6% to 47.2% reflecting the draw down of loans under the Unsecured Loan notes 2027 Instrument.

Figure 4 – Summary Statement of Financial Position

	At 31 March 2011 (£m)	**At 31 March 2011 (£m)**	At 31 March 2010 (£m)
Total non-current assets	**2,039.6**		1,887.1
Total current assets	**48.2**		57.8
Total Assets		**2,087.8**	1,944.9
Equity		**826.6**	781.0
Total non-current liabilities	**1,131.4**		1,005.0
Total current liabilities	**129.8**		158.9
Total liabilities		**1,261.2**	1,163.9
Total equity and liabilities at 31 March		**2,087.8**	1,944.9

Cash Flows and Debt

Operating activities generated a net cash inflow of £173.3m (2010: £148.0m). Net cash outflows of £181.4m (2010: £247.7m) related to investing activities. This includes acquisition of property, plant & equipment of £181.9m (2010: £248.5m), proceeds from the sale of property, plant & equipment of £0.3m (2010: £0.5m) and interest received of £0.2m (2010: £0.2m). Net financing activities used £10.5m (2010: £88.9m). Dividends paid during the year totalled £36m 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 2011 was

£959.2m[42] (2010: £858.8m[43]). The increase in net debt was financed through an increase in net financial liabilities due after one year.

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

Treasury Policies and Objectives

Funding and treasury risk management functions are managed centrally by the Treasury function within our Finance and Regulation Directorate. During the year, the Treasury Forum continued to operate as an advisory body to the Board and the Executive Committee. 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

The NI Water pension scheme (the Scheme) is a separate legal entity with NI Water having the role of principal employer. The Scheme was set up with a benefits structure which was a 'mirror image' of the Civil Service Scheme in April 2007. The Scheme had 366 pensioners and 1,532 members (active and deferred) as at 31 March 2011.

The Scheme is a funded, defined benefit scheme. It is managed by a Board of Trustees made up equally of NI Water nominated and Member elected Trustees who are legally responsible for managing the Scheme. The Scheme had its first full valuation at 1 April 2008 and this showed that the assets and liabilities were broadly in balance. The contribution rate to the Scheme was revised to take account of this valuation and the Investment Strategy was also revised to ensure that the return on investments will meet the needs of members going forward.

The Scheme received a bulk transfer from the NI Civil Service Pension Scheme (PCSPS (NI)) on 20 August 2010. This was to cover the cost of providing pensions to employees who had transferred their accrued pension rights from the NI Civil Service Pension Scheme to the NI Water Pension Scheme.

NI Water closed the Premium Section of the Scheme to new starts on 30 November 2010 and replaced it with a career average (CARE) section which the Trustees were asked to manage.

During 2011/12, we will:

- Assist the Trustees to complete the triennial valuation as at 1 April 2011 which will provide evidence of the necessary funding rate going forward; and
- Work closely with the Scheme's Trustees and advisers to ensure the effective running of the scheme to the advantage of all members.

[42] Refer to notes 17 and 19 in the Statutory Accounts. Net debt consists of loans of £737.6m and finance leases of £237.5m less cash and cash equivalents of £15.9m.
[43] Refer to notes 17 and 19 in the Statutory Accounts. Net debt consists of loans of £627.6m and finance leases of £244.7m less cash and cash equivalents of £13.5m

Atypical operating expenditure items

We consider the following items to represent atypical and re-organisational operating expenditure in accordance with Regulatory Accounting Guideline 3.06 (RAG 3). Atypical items are deemed to be 'one off' in nature.

Figure 5 – Atypical and re-organisational operating expenditure items

	Year to 31 March 2011 (£m)	Year to 31 March 2010 (£m)
Business Improvement Programme	**2.0**	6.4
Voluntary Early Retirement scheme	**2.6**	5.1
Freeze/Thaw	**5.1**	0.5
Total	**9.7**	12.0

Improvements to our control environment

Good progress has been made in implementing the recommendations for improvements to governance made by the IRT and the PAC[44]. This has resulted in a continued focus on procurement governance and the development of an improved control environment appropriate to an organisation in receipt of our level of public subsidy.

The requirement to have an additional audit opinion on regularity of spend and income is supporting improvements in this area. The qualified audit opinion on regularity of spend reflects the impact of these issues which we are working to address during the PC10 period.

[44] http://www.niassembly.gov.uk/public/2007mandate/reports/2010/report_3740_10_11R_vol1.htm

People
…building the capability to deliver

Strategic objective
Our business plan for the PC10 period set out the following strategic objectives for people:

Develop the capability to deliver	• Ensure proper application of the appraisal system to provide clarity on personal objectives and capture staff development needs. • Manage people to achieve high personal and team performance. • Promote and monitor core capability levels among NI Water staff and actively seek improvement. Improve employee engagement across the Company at all levels to clarify and achieve business goals.
Champion health and safety	• Continuously improve on the current high level of health and safety performance. Set a vision for zero 'RIDDOR' accidents by reducing accident rates by 25% over 2010-13.
Efficient and effective resourcing	• Attract, retain and motivate highly engaged and performing employees.

We have set out below the performance against these strategic objectives across the 2010/11 period.

Creating a high performance culture
Central to achieving business objectives and the organisation's vision is the requirement to create a high performance culture. NI Water implemented a new Performance Management System (PMS) in 2009/10. The PMS documentation has been revised following a review and all employees used the new pro-forma for 2010/11.

NI Water has also developed and introduced a new competency framework as part of the performance management process and this was communicated to all employees for use in the PMS for 2010/11. Human Resources continue to support managers to embed the process and interpret and apply the new competency framework.

Management development programmes aimed at senior and middle managers across the organisation commenced in September 2010 and will continue to be delivered during 2011/12.

Engaging employees
In June 2010, NI Water conducted its fourth employee survey in order to assess employee engagement levels across the organisation. The target was to improve the employee response rate from 46% in 2009/10 to 65% in 2010/11. We achieved a 61% response rate in 2010/11. An action plan in response to the issues raised by the survey results was agreed by the Executive Committee in September 2010. Many of the corporate actions agreed are now in progress including Directorate specific action planning workshops, which were held throughout the organisation during October and November 2010.

Managing attendance
Employee attendance was 96.6% as at 31 March 2011, exceeding the revised 2010/11 target of 96.5%. Human Resources continue to work in partnership with line managers and our external strategic partners (Carecall and Independent Occupational Health) to reduce long term sickness absence.

Ongoing focus on health and safety

We continue to focus on making NI Water a safe place to work by working with line managers to reduce accidents in the workplace.

In particular, we are targeting the improvement of safety behaviours by all staff through our 'work safer' campaign. One of our key performance indicators in this area is to reduce the number of RIDDOR[45] Accidents, i.e. those with more than 3 days absence associated and which require to be reported to the Health and Safety Executive for Northern Ireland.

Going forward, we will focus on Health and Safety Regulation, leadership and behaviour led initiatives and build on our good Health and Safety performance in 2010/11, when our Health and Safety KPI target of not more than 10 RIDDOR accidents was surpassed. During 2010/11 we also achieved an in-year record of 196 days without a RIDDOR incident.

The Health and Safety KPI target for 2011/12 has been set at not more than 9 RIDDOR accidents which, if achieved, will deliver a sustainable 53% improvement on the 2006/07 benchmark out-turn of 19 RIDDOR accidents.

All Senior Managers are now well aware of risk areas for special attention and have communicated the practicable control measures to mange these within their own Functions to ensure that our 2011/12 Health and Safety KPI target is met.

Implementing the Early Retirement/Severance Schemes

In order to manage manpower numbers across NI Water, we meet regularly to review progress against targets and all associated employee costs, and take remedial action as appropriate.

Early Retirement/Severance Schemes were issued on 29 October 2010 to all employees seeking expressions of interest to leave the organisation by 31 March 2011. We are also seeking expressions of interest from employees who would have a desire to leave during the following two year period i.e. 2011/12 and 2012/13.

[45] Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (Northern Ireland) 1997

Compliance

…investing for the future

Strategic objective

Our business plan for the PC10 period set out the following strategic objectives for compliance:

Create data quality culture	• Through training and promotional material, ensure that all our employees view it as their responsibility to provide reliable, accurate and timely data. • Focus on improving data grades through improved collection and data capture processes.
Deliver improvements in Water and Waste Water	• Achieve compliance with DWI requirements for drinking Water. • Complete schemes required by NIEA to achieve 100% compliance with the Urban Waste Water Treatment Directive. • Make substantial improvements to compliance against other legal requirements and reduce significant pollution incidents during 2010-13. • Dispose of sludge from our treatment works cleanly and safely. • Maintain serviceability of our assets.
Develop an effective and controlled business	• Further transformation of the business' systems and processes.
Deliver stakeholder requirements	• Understanding and meeting UR requirements for monitoring in 2010-13 (Annual Information Return) and for the post-PC10 price control review. • Understanding the requirements of NIEA for environmental compliance and DWI for drinking Water quality. • Understanding and meeting DRD's requirements as shareholder to NI Water. • Understanding and meeting the expectations of other key stakeholders (annual report, customer literature, environmental reporting, submissions to DWI and HSE).
Focus on data quality and systems	• Delivery of the Data Quality Programme. • Cleanse existing data to improve the quality and accuracy of customer billing records.

We have set out below the performance against these strategic objectives across the 2010/11 period.

Water Quality

The 2010[46] compliance levels for drinking Water at the customer tap are at an all time high with a Mean Zonal Compliance (MZC) outturn of 99.81%. This represents the best ever drinking Water quality for Northern Ireland and follows a continuous improvement trend over the last four years. The compliance level exceeds the requirement of the DRD Social and Environmental Guidance and NI Water's internal target of 99.70%. Our programme of investment to maintain and upgrade Water treatment works continues to produce compliance improvement in drinking Water quality. The Mains Rehabilitation Programme is scheduled to give priority to areas of greatest need and will contribute towards improving the quality of drinking Water delivered to the customer's tap over the next fifteen years.

Water Resources

We operated circa 30 Water sources which comprised upland impounding reservoirs, boreholes, rivers and loughs. In addition there were a further 4 sources operated on behalf of NI Water by a

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

Public Private Partnership (PPP) contractor. Water resource planning is managed by way of a long term strategy which considers the demand for drinking Water for the period up to 2030. A revised Water Resource Management Plan is currently being prepared and continues to emphasise the need to rationalise existing uneconomic Water sources and concentrate on the sources that can meet our needs cost effectively and reliably.

Waste Water

As well as providing high quality, reliable and safe drinking Water to its customers, NI Water also removes Waste Water from homes and businesses all over Northern Ireland. After appropriate treatment the effluent is returned safely to the environment. We achieved the target for the calendar year 2010 of 85.0% of works complying with Waste Water treatment standards and the target of 94.80% of the population served by compliant Waste Water treatment works. The organisation also outperformed the 2010 target for high and medium severity pollution incidents (not more than 54 per annum).

EC Bathing Waters

During 2010 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 2010, 22 of the 24 identified bathing Waters in Northern Ireland met the mandatory standard, and 16 met the higher guideline standards.

Pollution Incidents

NI Water holds Pollution Prevention Control (PPC) permits for 28 Waste Water sites to regulate sludge thickening and dewatering activities. Progress has been made on the general management conditions associated with the permits and the main focus is now on complying with odour conditions set for each site. Other waste activities within the organisation are managed through waste management licenses and exemptions.

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 £130m[47] of capital engineering projects were delivered during 2010/11. This included the continuation of projects previously started along with the commencement of new projects.

Some 42.4% of this capital programme was targeted at Water projects while 57.6% was targeted at Waste Water projects. Some 24 projects were completed at high priority Waste Water 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) were also completed in 2010/11. Improvements were made to the watermain infrastructure in a number of areas throughout Northern Ireland. Work continued on improving the Waste Water network at various locations including Carrickfergus, Bangor and Londonderry.

Approximately £143m[48] of capital works projects are scheduled for delivery during 2011/12. This includes the continuation of projects previously started along with the commencement of new projects. Work will continue to ensure compliance with the appropriate European Community Directives and meet the regulatory discharge consent standards. It is planned to target improvements to the Water main infrastructure in a number of areas throughout Northern Ireland. Some 12 zones are programmed for work. This will continue a three year programme of work to reline or replace 900km of Water mains throughout Northern Ireland. Work will also continue on

[47] UK GAAP based in line with Final Determination.
[48] UK GAAP based in line with Final Determination.

improving the sewer network in Londonderry, Newcastle, Downpatrick, Coleraine and other locations throughout Northern Ireland.

Innovation Programme

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

Over 2010/11, we invested approximately £1m on 24 projects through the Innovation Programme. Projects have included the following:

- Upgrading of the central telemetry control system including the associated telemetry data used for remote monitoring of our works;
- Further development of the Capital Programme Monitoring and Reporting (CPMR) System used to monitor and report on our capital spend;
- The development of network distribution control systems to generate efficiencies in the flows between service reservoirs and Water treatment works;
- Pump surveys to identify potential energy efficiencies; and
- Sustainable Catchment and Management Plans (SCaMP) to reduce the level of Water treatment required at our works through changes to land management practices.

In 2011/12, we will continue to invest in 17 projects through our Innovation Programme. Projects will include the following:

- Installation of Intelligent Pumping Station Manager control systems;
- Improving coagulation control and monitoring at Water Treatment Works; and
- Continued development of Sustainable Catchment Management plans.

Operational Effectiveness

We continue to seek improvement of service to customers by improving the performance of our infrastructure. Good operational management and investment in technology drives overall efficiency. Operational management seeks to maintain works, particularly those operating beyond their designed capacity. In reviewing asset performance and careful planning of investment NI Water seeks to optimise the balance between operational costs and capital investment. In addition NI Water seeks to introduce new technology to help improve its operational effectiveness and reduce costs. For example we have installed remote monitoring at 290 Combined Sewer Overflows to provide early warning of problems which will allow us to respond more quickly to events.

Asset Management

We continued to work through the regulatory Price Control process with the submission of a draft Monitoring Plan for the 2010-13 period. However the continuing dependence on the availability of funding through the Public Expenditure process required working collaboratively with CCNI, the environmental regulators, the DRD and the UR to review and agree the revised capital investment programme.

We also continue to develop our asset management capability to optimise investment in Water and Waste Water assets. For example, during the period we have improved the functionality of our Corporate Asset Register. This provides staff with up to date asset information which allows more informed investment decisions to be made.

Public Private Partnerships

PPPs - NI Water's Public Private Partnership (PPP) programme construction phase was completed In 2009/10 and all contracts have been in full operational service throughout the year.

Alpha Project - supplying an average of 252 million litres of drinking Water per day to NI Water from 4 Water Treatment Works, the Alpha Project has positively contributed to NI Water's out performance of its 99.70% Mean Zonal Compliance target.

Omega Project – the Omega project provides a Waste Water treatment service for a population equivalent of approximately 300,000 (circa. 20% of Northern Ireland's current Waste Water treatment capacity). It has maintained compliance with the regulatory Waste Water treatment effluent discharge standards over the course of the year, and in so doing positively contributed to NI Water's compliance targets. In addition, all NI Water's Waste Water sludge has been disposed of in accordance with regulations, through this contract.

External Stakeholders

…building strong relationships and operating responsibly

Introduction

Our stakeholders are of fundamental importance. We were determined to build appropriate and open relationships in which there is recognition of the interests of all concerned. This section deals specifically with relations with:

- **The Minister for Regional Development and the DRD**. DRD's Water Policy and Shareholder Units are responsible for the setting of future Water policy, for our funding through customer subsidies and lending the funds to support our investment programme;

- **The UR,** as the economic regulator responsible for safeguarding customer interests through securing value and quality outcomes for customers whilst ensuring that the organisation can finance its activities;

- **The NIEA and the DWI,** as the environmental regulators responsible for overseeing the Company's attainment of environmental standards including safeguarding public health and preventing pollution;

- **The CCNI,** as the organisation responsible for representing customer interests; and

- **The Northern Ireland Assembly and Regional Development Committee,** as elected representatives.

DRD

The adoption of the principles used by the Shareholder Executive[49] in conjunction with our Governance Letter allowed us to build and maintain confidence and trust in our ability to deliver the agreed rate of return for the investment made by DRD. We also focused on securing growth to the Regulated Capital Value as a result of investing efficiently and in the areas of highest priority. These issues are addressed more fully in the Cash section.

The UR

We have worked closely with the UR during the first year of the PC10 period. This included:

- Working with the UR to ensure that we operated within our Licence;
- Engaging with the UR to update a number of our Codes of Practice;
- Collaborating with the UR in developing Asset Serviceability Indicators;
- Supporting the UR in its review of the winter 2010/11 freeze/thaw incident; and
- Delivering the regulatory information required by the UR, including: the 2010 Annual Information Return, Annual Land Disposal Return, Procurement Activity Report, performance against targets and Regulatory Accounts.

NIEA and DWI

We worked with NIEA and DWI over the Report period to:

- Maintain a constructive relationship in which we both met our regulatory requirements including the prompt and accurate reporting of pollution and other incidents and acted speedily to mitigate the impact of those failures;
- Undertake preparatory work to prioritise the Rural Investment Programme works for 2011 and the works serving over 250 population equivalent for the next investment cycle; and complete Drainage Area Plans;
- Regulate waste management activities in the organisation; and

[49] The Shareholder Executive was set up in September 2003 to work with shareholder departments in Government to improve fundamentally the Government's capabilities and performance as a shareholder.

- Operate the Statement of Regulatory Principles and Intent agreed between the organisation and our environmental regulators, and endorsed by the Minister, which ensured that, while we are fairly held to account for any management failures, progress to environmental compliance was linked to the funding in the Capital Works Programme.

CCNI

Customer interests were represented by the CCNI. We have worked closely with the CCNI on a wide range of customer issues. During 2010/11 year we:

- Consulted CCNI, in accordance with the Licence, on customer view panels and focus groups, the Scheme of Charges, and implementing recommendations from the 'Tapping into Consumer Views Survey';
- Worked with the Consumer Council on revisions to Codes of Practice: Water Supply Services; Sewerage Services; Billing and Metering for Non-Domestic Customers, Guidance on Dealing With Leaks, 'What To Do If You Have a Complaint' and; Customer Care Register; and
- Continued to work with CCNI on monitoring PC10 and complaints assessment.

Northern Ireland Assembly and Regional Development Committee

We sought to continually improve communication channels with political stakeholders via the Elected Representative (ER) Hotline and attendance at party political conferences. We have also engaged in briefings with MLAs and other stakeholders. In addition, we have been proactively communicating with elected representatives on key constituency matters and major incidents, such as the severe winter weather conditions.

This approach has been taken to ensure elected representatives receive critical up-to-date and local information on behalf of their constituents, our customers. We are also working to promote greater use of our ER Hotline amongst elected representatives at all levels. We continue to work to enhance our communication with elected representatives at all levels in the event of a major incident.

Other stakeholders

While this section has focused on the major stakeholders with whom we have statutory and regulatory arrangements, we recognise the importance of the broader span of parties interested in the Water sector.

We have worked in co-operation with business and industrial representative groups, as well as with groups representing our vulnerable customers, who have been particularly helpful in assisting with the promotion of our Customer Care Register. NI Water has also worked with community groups and other voluntary bodies to promote key messages, such as 'Bag it and Bin it.' We have plans to enhance our contact arrangements across a broader range of stakeholders in the coming months.

Further details on our work with other stakeholders are provided in Corporate Social Responsibility section.

Corporate Social Responsibility

…supporting communities, the environment and the economy

Introduction

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

We worked throughout 2010/11 in keeping our internal and external stakeholders fully informed of progress made on infrastructure developments, organisational changes and supply issues. In particular, recommendations made by the UR following the Freeze/Thaw are being implemented to ensure that stakeholders are kept informed if we face similar events in the future.

In early 2010 NI Water established a formal Corporate Social Responsibility (CSR) Committee, highlighting its commitment towards setting challenging targets to achieve goals of continuous improvement in economic, community and environmental performance. We intend that this Committee, which gives a greater focus on performance reporting, will drive the organisation towards further innovation and efficiency. This Committee will maintain a strategic overview of all aspects of our CSR policy, with a focus on key CSR issues including climate change; sustainability and the environment; the communities in which we operate; the stakeholders with whom we work; employees and their welfare and, finally, our corporate reputation both internally and externally.

We define our main Corporate Social Responsibility themes and priorities as Customer, Environment, People, Reputation and Competitiveness.

Customer

We continue to commit to safeguarding services to our most vulnerable customers, refining our Codes of Practice and a Customer Charter with the CCNI. We continue to provide a high standard of service and recognise the need to deliver affordable quality and play our part in improving the health and environment of the community.

We continued to work on offering help and guidance to our customers. For example, we developed our Customer Care Register which allows special arrangements for those customers who require extra help. We also promoted our Bogus Callers video to help protect customers in their homes from criminals claiming to be NI Water workers.

We remain committed to a data quality improvement programme as the information held can affect the experience of individual customers. From understanding where an asset is, so it can be repaired, to having accurate information to allow efficient billing of non-domestic customers, correct data is essential and remains a corporate priority.

Environment

NI Water takes our environmental responsibilities seriously and are certified to ISO 14001 – the Environmental Management System standard. Maintaining the security and quality of the Water supply is fundamental to the service provided to our customers.

Water quality remains at its highest level since we were formed and we have a clear environmental policy that both protects and ensures regulatory and legislative requirements. We continued to focus on the provision of Waste Water services, planning and investing to ensure services meet the current and future needs of domestic and business customers. We prioritised environmental protection and reduced the number of pollution incidents in 2010[50] as well as increasing the number of customers served by a compliant Waste Water treatment works.

[50] This is reported on a calendar year basis.

We have policies and procedures in place to focus the organisation on waste management and recycling, transport costs and energy efficiency. We continue to train all employees on our comprehensive Environmental Management System.

In 2010 we entered the Arena Environmental Benchmarking Survey[51] for the second time. Arena is the environmental arm of Business in the Community. This independent survey targets Northern Ireland's leading public and private organisations, and measures how well they are managing their environmental impacts, ranking organisations against their peers. This year we achieved a Quintile 1 position for the first time, which reflected a 6% improvement on last year's performance. Our overall percentage score was 83%, the NI average was 72% and the sector average was 77%.

Externally, we continued with our significant education programme, educating schools and community organisations on Water efficiency, Water for health and environmental protection and conservation.

People

We recognise people as our main asset, and we have made significant steps in developing a strong Health and Safety awareness culture amongst our employees. We surpassed our 2010/11 Health and Safety target, with an in-year record of 196 days without a RIDDOR (3 day) accident. We also achieved an all time UK-wide industry best performance record of only 3.06 RIDDOR incidents per 1,000 employees and received the Gold Award at RoSPA's[52] Occupational Health and Safety Awards.

The Health and Safety work sits alongside our Human Resources policies and procedures which protect the health, wellbeing and development of employees. We continued to work with our Trade Union colleagues, bringing about changes to benefit all employees.

Employees are supported to realise their potential, with development needs recognised and addressed via a structured Performance Management System. During the period of this report we also continued to support family-friendly, flexible working arrangements including the introduction of a childcare voucher scheme.

As we worked actively towards being an 'Employer of Choice', the employee survey response rates were encouraging. Despite falling below our target level the results showed a 17% improvement on 2009/10.

Our employees are encouraged to volunteer their time for charity and local community projects. our employees continue to be heavily involved with the Water Aid charity and provide support in the form of donations through various fundraising events.

Reputation

We recognise the fundamental importance of good relationships with our customers and external stakeholders. Our external stakeholders are detailed on pages 28 to 29.

In order to deliver the infrastructure and service improvements that customers expect, strong relationships based on openness, trust and respect are essential. The Water supply issues in December 2010 impacted adversely on our reputation but we are determined to restore confidence in our organisation.

---

[51] The Northern Ireland 12th Environmental Benchmarking Survey, http://www.bitc.org.uk/northern_ireland/what_we_do/planet/survey_ni.html

[52] The Royal Society for the Prevention of Accidents.

We also seek to continually improve communication channels with political stakeholders via the Elected Representative Line and attendance at party political conferences. In addition, we have been pro-active communicating with elected representatives on key constituency matters and major incidents, such as the Freeze/Thaw. This approach has been taken to ensure elected representatives receive critical up-to-date and local information on behalf of their constituents - our customers.

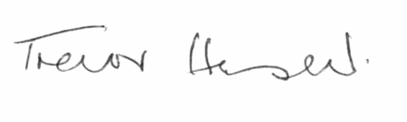
In 2010/11 we made further improvements in establishing Corporate Governance principles and Business Continuity plans to protect the delivery of service, implement controls and manage risks as they arise. Further details are provided on pages 37 to 46.

Competitiveness

We wish to maintain an ethical and accountable approach to business, ensuring a stable financial profile, with equitable and transparent procurement practices. We delivered against the operational and capital cost efficiencies in the 2007-10 period, and continue to control our operating costs in line with the challenging efficiency targets set for the PC10 period.

We seek to work with those suppliers with good environmental and safety controls, and who are responsible and sustainable in their business activities. Evaluating such activities has become part of the procurement and tendering process for large contracts.

Corporate Governance procedures and Business Continuity plans are in place along with an Internal Audit team who monitor activity to ensure procedures are followed. We have moved towards a business continuity and governance culture which will increase customer confidence in our organisation.



Trevor Haslett
Interim Chief Executive
6 July

Directors' Report

The Directors present their report, together with the audited financial statements for the year ended 31 March 2011.

Principal activities

The principal activities of the Company are the supply of Water and the collection and treatment of sewage in Northern Ireland.

The Company is domiciled and incorporated in Northern Ireland. The Registered Number is NI054463 and the Registered Office is: Westland House, Old Westland Road, Belfast, BT14 6TE. The Company is wholly owned by the Department for Regional Development.

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 2011, 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 1 to 7);
- Operational performance (refer to pages 10 to 32);
- Financial performance (refer to pages 18 to 21);
- Key performance Indicators (refer to pages 6 to 27 and pages 158 to 177);
- Corporate social responsibility (refer to pages 30 to 32);
- Risks and uncertainties (refer to pages 47 to 53); and
- Financial risk management objectives and policies (refer to pages 18 to 21 and pages 80 to 82).

Dividends and reserves

The Company's dividend policy is to provide a return to the Shareholder based on a percentage of the regulatory capital value less net debt. It is anticipated that a final dividend of £26m for the year ended 31 March 2011 (2010: £36m[53]) will be approved by the Shareholder upon the recommendation of the Board in July 2011 and paid in August 2011 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2011.

Directors and Officers

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

Current Non-Executive Directors:

- **Seán Hogan, Non-Executive Director - Chairman** (appointed on 24 March 2011). Seán is responsible for ensuring the Board works effectively and is also Chair of the Nomination and Remuneration Committee.
- **Donald Price, Non-Executive Director**. Donald became a Non-Executive Director of the Company in 2008. Donald is Chair of the Audit Committee and is a member of the Nomination and Remuneration Committee.

[53] This dividend in respect of the year ended 31 March 2010 was paid in the year ended 31 March 2011.

- **Peter Bunting, Interim Non-Executive Director** (appointed on 21 June 2010). Peter is a member of the Audit Committee and the Nomination and Remuneration Committee.
- **Kevin Steele, Interim Non-Executive Director** (appointed on 21 June 2010). Kevin is Chair of the Procurement Committee and is a member of the Audit Committee.
- **Lawson McDonald, Interim Non-Executive Director** (appointed on 21 June 2010). Lawson is Chair of the Corporate Social Responsibility Committee and is a member of the Procurement Committee.

Current Executive Directors:

- **Trevor Haslett, Executive Director – Interim Chief Executive** (appointed on 7 January 2011). Trevor worked for NI Water Service for 30 years prior to the inception of NI Water in 2007. Trevor is responsible for the executive management of all of the Company's business and for implementing Board strategy, and is a member of the Procurement Committee.
- **Ronan Larkin, Executive Director - Director of Finance and Economic Regulation**. Ronan joined NI Water Service in September 2005. Ronan is responsible for the financial direction and economic regulation of the Company and the relationship with the Utility Regulator.
- **Sara Venning, Executive Director - Director of Customer Service Delivery** (appointed on 21 May 2010). Sara is responsible for the supply and distribution of Clean Water, the removal and treatment of Waste Water and all aspects of customer service delivery.
- **George Butler, Executive Director - Director of Asset Management**. George joined NI Water Service in April 2005. George is responsible for Health and Safety, Scientific Services, Asset Management and for liaising with the environmental regulator.

Former Non-Executive Directors:

- **Padraic White, Interim Non-Executive Director – Interim Chairman** (appointed on 9 August 2010 and resigned on 25 April 2011).
- **Máirtín Ó Muilleoir, Interim Non-Executive Director** (appointed on 30 June 2010 and resigned on 7 December 2010).

Former Executive Director:

- **Laurence MacKenzie, Executive Director - Chief Executive** (resigned on 7 January 2011).

Directors' remuneration and annual bonus plan

Remuneration for Executive Directors comprises: base salary, a discretionary annual bonus plan and pension entitlements. There was no bonus scheme in place for 2010/11. 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 54 to 60 and in note 8 to the financial statements.

Directors' and Officers' indemnities

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

Policy on the payment of creditors

The Company's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative agreement, the policy is to make payment not more than 30 days after receipt of a valid invoice. The ratio, expressed in days, between the time invoices from large suppliers fall due and the time invoices were actually paid at 31 March 2011, was 32.2 days (2010: 32.6 days).

The Company has adopted the public sector supplier payment policy for small and medium sized suppliers of 10 days after receipt of a valid invoice in accordance with the Northern Ireland Executive's policy. As at 31 March 2011 this stood at 14.8 days (2010: 16.5 days).

Political and charitable contributions

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

Research and Development

NI Water invested £0.4m on research and development in 2010/11 (2010: £0.5m) (refer to note2(c) (i) 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 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 the Company's policy to provide employment equality to all, irrespective of gender, including gender re-assignment; marital or civil partnership status; having or not having dependants; religious belief or political opinion; race (including colour, nationality, ethnic or national origins); disability; sexual orientation; or age. The Company is opposed to all forms of unlawful and unfair discrimination. All job applicants, employees and others who work for the Company will be treated fairly and will not be discriminated against on any of the above grounds. Decisions about recruitment and selection, promotion, training or any other benefit will be made objectively and without unlawful discrimination. We recognise that the provision of equal opportunities in the workplace is not only good management practice, it also makes sound business sense. NI Water's equal opportunities policy enables all those who work in the Company to develop their full potential, and the talents and resources of the workforce will be utilised fully to maximise the efficiency of the organisation.

Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2011, 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.

Health and safety

Heath and Safety matters are addressed on page 23.

Corporate social responsibility

Corporate Social Responsibility matters are addressed on pages 30 to 32.

Disclosure of information to auditors

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

Auditor

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

By order of the Board

Mark Ellesmere
Company Secretary
6 July 2011

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', 2008 (the Combined Code). Not all of the provisions of the Combined Code apply to NI Water as a Government owned company (GoCo). Apart from the matters detailed below, the Company has complied throughout the financial year ended 31 March 2011 with the relevant Combined Code provisions.

NI Water is also classified as an NDPB sponsored by DRD, the Company's sole shareholder. The governance arrangements between NI Water and DRD are established through the Shareholder relationship and the governance letters issued by DRD.

Explanation of non compliance
On 11 March 2010 the Minister for Regional Development (the Minister) removed the Chairman, and three Non-Executive Directors. This brought the number of Executive and Non-Executive Directors on the Board to three and one respectively.

A. 1 April 2010 – 8 August 2010
For this period the Company did not comply with the following relevant provisions of the Combined Code for a 'smaller[54]' company, i.e. not having:

- The required number of Non-Executive Directors (A.3.2);
- A Chairman (A.1.2, A.2.2 and A.3.1);
- A Senior Independent Non-Executive Director (A.3.3); or
- A quorum for the required Audit (C.3.1), Remuneration (B2.1) and Nomination (A.4.1) committees.

Donald Price was the only remaining Non-Executive Director, and the Chair of the Audit Committee. As the Audit Committee did not have adequate quorum for the period from 11 March 2010 to 13 October 2010, pressing audit matters were dealt with by the Board. The Board met to consider Audit Committee matters on 29 March 2010, 20 May 2010 and 24 June 2010.

For this period the Company did not comply with the relevant provisions of the Combined Code in terms of not having:

- A Chairman (A.1.2, A.2.2 and A.3.1);
- A Senior Independent Non-Executive Director (A.3.3); or
- Re-established the required Audit (C.3.1), Remuneration (B2.1) and Nomination (A.4.1) committees.

B. 9 August 2010 – 13 October 2010
For this period the Company did not comply with the relevant provisions of the Combined Code in terms of not having:

- A Senior Independent Non-Executive Director (A.3.3); and
- Re-established the required Audit (C.3.1), Remuneration (B2.1) and Nomination (A.4.1) committees.

The Department is currently in the process of appointing new permanent Non-Executive Directors and Chief Executive in order to comply with the UK Corporate Governance Code[55] with respect to the above issues.

[54] A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.
[55] Applicable for financial years beginning on or after 29 June 2010.

Due to governance arrangements in place as a result of NI Water being classified as both a GoCo and an NDPB, it is not compliant with the following provision of the Combined Code, even when fully compliant in terms of board balance and establishment of required committees:

- The remuneration of the Chairman is determined by the Shareholder, not the Nomination and Remuneration (B.2.2) Committee.

NI Water as an NDPB

This is the first year that NI Water is to be subject to a regularity audit. A regularity audit is required by DRD given that NI Water is in receipt of a significant level of public expenditure subsidy. The regularity audit determines whether NI Water's expenditure and income is in line with the relevant delegated authority levels.

The latest governance letter, dated 14 February 2011, states that as DRD continues to provide the majority of income to NI Water, the DRD Accounting Officer has a responsibility to ensure that these public funds are being used in line with the principles of Managing Public Money Northern Ireland (MPMNI). These matters require further clarification and time-scale for completion.

As an NDPB, the Accounting Officer of NI Water has completed his annual Statement on Internal Control as part of this Annual Report.

The Board

Board structure

Laurence MacKenzie was Chief Executive until his resignation took effect on 7 January 2011, with Trevor Haslett acting as Interim Chief Executive from that date. Donald Price was a Non-Executive Director throughout the year and is also the Chair of the Audit Committee.

On 21 May 2010 Sara Venning was appointed to the Board as an Executive Director.

On 21 June 2010 Peter Bunting, Lawson McDonald and Kevin Steele, and on 30 June 2010 Máirtín Ó Muilleoir, were appointed as interim Non-Executive Directors. On 9 August 2010 Padraic White was appointed as interim Chairman to the Board of NI Water. He was later replaced by Seán Hogan on 24 March 2011. Both the interim and permanent Chairmen were considered independent on appointment.

The Board has reviewed the status of the Non-Executive Directors over the year and considered them to be independent in character and judgment and within the definition of this term in the Combined Code. 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.

The Non-Executive Directors also provide independent challenge and rigour to the Board's deliberations.

The role of the Non-Executive Director in NI Water was somewhat reduced during the year by the imbalance in representation on the NI Water Board, with only one Non-Executive Director to three Executive Directors at the start of the year, and committees not meeting as required. This imbalance was resolved when the Minister appointed interim Non-Executive Directors and a Chairman of the Board. The Board recognises that the appointment of permanent Non-Executive Directors is ongoing and will seek to ensure that the necessary skills, experience and qualities to lead the Company in the future will be present. 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 33 to 34. 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 meetings, Board Sub-Committee meetings and the attendance of the Directors at those meetings are shown in ***Figure 6*** on page 43. The Chairman has responsibility for the effective workings of the Board and agrees the agenda in consultation with the Company Secretary. Papers, including minutes of Board committees held since the previous Board meeting and reports, are circulated in advance of each meeting. The Chief Executive is responsible for the executive management of all of the Company's business and for implementing Board strategy and policy within approved budgets and time-scales.

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

Current members of the Executive Committee:
Trevor Haslett* – Interim Chief Executive (appointed 7 January 2011);
Ronan Larkin* – Director of Finance and Regulation;
George Butler* – Director of Asset Management;
Sara Venning* – Director of Customer Service Delivery (appointed 21 May 2010);
Mark Ellesmere – General Counsel and Company Secretary; and
Bill Gowdy – Acting Director of Engineering Procurement (appointed 7 January 2011);

Former members of the Executive Committee:
Laurence MacKenzie* – Chief Executive (resigned 7 January 2011); and
Pauline Shepherd – Director of Human Resources (retired 8 May 2011).

*Executive Director.

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, or in the absence of the Chairman the Chief Executive, will bring it to the attention of the Board. NI Water purchases Directors' and Officers' liability and indemnity insurance which cover its Directors and Officers against the costs of defending themselves in civil proceedings taken against them in that capacity and also in respect of damages resulting from the unsuccessful defence of any proceedings.

Board Committees

A committee structure is in place to assist the Board in the discharge of its responsibilities. The Terms of Reference of the Audit Committee, the Corporate Social Responsibility Committee, Remuneration and Nomination Committee, and the Procurement 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 Principal Committees has reviewed their effectiveness, following which Terms of Reference have been updated where necessary and any actions identified and reported to the Board.

The membership of the Principal Committees is set out below:

Audit Committee

- Donald Price** (Chair);
- Peter Bunting** (from 14 October 2010); and
- Kevin Steele** (from 14 October 2010).

Nomination and Remuneration Committee

This Committee was re-established in January 2011;

- Sean Hogan (replacing Padraic White as Chair);
- Donald Price; and
- Peter Bunting.

Procurement Committee

- Kevin Steele** (Chair, from 30 September 2010);
- Lawson Macdonald** (from 30 September 2010);
- Trevor Haslett* (from 7 January 2011); and
- Laurence MacKenzie* (from 30 September 2010 until 7 January 2011).

Corporate Social Responsibility Committee

- Máirtín Ó Muilleoir ** (Chair from 30 June 2010 until 7 December 2010); and
- Lawson McDonald** (Chair from 7 December 2010).

** Executive Director*
*** Non-Executive Director*

Audit Committee

Only Independent Non-Executive Directors may serve on the Committee. However for the period 1 April 2010 to 13 October 2010 the Board met on occasions to discuss Audit Committee matters, given the insufficient number of Non-Executive Directors on the Committee. On such occasions Donald Price, the Chair of the Audit Committee, who has the necessary financial experience, chaired the meetings.

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, Company Secretary, Director of Finance and Regulation, Head of Corporate Governance, the External Auditor and Head of Internal Audit will normally be in attendance for all or part of those meetings. Gary Fair, Director of Shareholder Unit, is also invited to attend Audit Committee meetings. Donald Price, the Chair of the Audit Committee has recent and relevant financial experience. Kevin Steele chairs the Department of Education's Audit and Risk Management Committee. Peter Bunting is the Assistant General Secretary for the Irish Congress of Trade Unions. 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 reviews the policies for the non-audit services by the external auditor and the framework for the pre-approval of the provision of audit and non-audit services by the external auditor. During the year the Audit Committee asked the Procurement Committee to review non-audit services.

The Head of Internal Audit meets quarterly with the Chairman of the Audit Committee without management to discuss the Company's overall control environment. The Head of Internal Audit reports to the Chief Executive as Accounting Officer and to the Audit Committee. The Audit Committee assesses the safeguards in place to protect the independence of the Internal Audit Function. An independent review of the effectiveness of the internal audit function was conducted during the year. In addition, over the year the effectiveness of the Company's internal audit function has been reviewed by the Audit Committee.

The Audit Committee has, throughout the year, monitored the integrity of financial reporting together with the Company's formal announcements relating to its financial performance, paying particular attention to significant reporting judgments contained therein. The effectiveness of NI Water's internal control and risk management system is reviewed by the Audit Committee. The Audit Committee oversees the Business Continuity Plan; reviews the effectiveness of NI Water's Whistle blowing policy; and reviews the management assurance statements and the annual Statement on Internal Control (SIC).

The Audit Committee has reviewed risk management and reported on a regular basis on the effectiveness of the system of internal control during the year ended 31 March 2011 and has reported to the Board on key matters for their consideration. A strategic risk management report is also included in the Chief Executive's report to the Board on a monthly basis. The Audit Committee reviews fraud, theft, bribery and irregularities and also reports of whistle blowing cases that deal with allegations from employees and outsiders relating to breaches of the Company's Code of Business Ethics. The Committee evaluates the effectiveness of its own performance on an annual basis and reports to the Board on any areas for the Board's consideration.

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 54 to 60. 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.

Procurement Committee (from September 2010 onwards)

The Procurement Committee was established at a Board meeting on 30 September 2010, following the disbandment of the Asset Investment Committee. It meets at least four times a year and during 2010/11 met monthly from November 2010. The Committee was chaired by Kevin Steele, Independent Non-Executive Director. The Committee makes recommendations to the Board concerning the tendering and award of contracts exceeding £1m for operational costs and £2m for capital works.

Good progress has been made in implementing the recommendations for improvements to governance made by the IRT and the Public Accounts Committee[56]. This has resulted in a continued focus on procurement governance and the development of an improved control environment appropriate to an organisation in receipt of our level of public subsidy. The requirement to have an additional audit opinion, on regularity of spend in 2010/11, and income is supporting improvements in this area. The qualified audit opinion on regularity of spend reflects the impact of these issues which we are working to address during the PC10 period. Further details on procurement are provided in the Statement of Internal Control.

Corporate Social Responsibility Committee

The Corporate Responsibility Committee is a sub-committee of the Board. Máirtín Ó Muilleoir was appointed as chair and then replaced by Lawson McDonald. The main responsibilities of the Committee are to assess the work of the Company in promoting Health and Safety; oversee the Company's overarching Corporate Responsibility Strategy; to promote the importance of corporate reputation; and to propose and agree targets for work within these areas.

Meetings

Details of the Board and Board Committees' meetings attended by each Director during the financial year are shown in ***Figure 6***.

[56] http://www.niassembly.gov.uk/public/2007mandate/reports/2010/report_3740_10_11R_vol1.htm

Figure 6 – Attendance at Board and Principal Committees' meetings (2010/11)

	Board meeting		Audit Committee*		Corporate Responsibility Committee		Procurement Committee		Nomination and Remuneration Committee		Asset Investment Committee (until June 2010)	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Seán Hogan (appointed 24 March 2011)	19	1	-	-	-	-	-	-	-	-	-	-
Padraic White (appointed 9 August 2010, resigned 25 April 2011)	19	11	-	-	-	-	-	-	3	3	-	-
Donald Price	19	14	4	4	-	-	-	-	3	3	-	-
Peter Bunting (appointed 21 June 2010)	19	7	4	3	-	-	-	-	3	2	-	-
Kevin Steele (appointed 21 June 2010)	19	14	4	3	-	-	7	7	-	-	-	-
Máirtín Ó Muilleoir (appointed 30 June 2010 resigned 7 December 2010)	19	4	-	-	1	1	-	-	-	-	-	-
Lawson McDonald (appointed 21June 2010)	19	11	-	-	1	1	7	7	-	-	-	-
Laurence MacKenzie (resigned 7 January 2011)	19	14	4	2	1	1	7	4	-	-	1	1
Trevor Haslett (appointed 7 January 2011)	19	3	4	2	-	-	7	7	-	-	1	1
Ronan Larkin	19	18	4	4	-	-	7	5	-	-	1	1
Mark Ellesmere	19	17	4	3	1	-	7	7	3	3	-	-
George Butler	19	15	-	-	1	1	-	-	-	-	-	-
Sara Venning (appointed 21 May 2010)	19	17	-	-	1	1	-	-	-	-	-	-

* At the start of the year the Board met on other occasions to consider Audit Committee matters.

Directors' interests in contracts

No Director had a material interest at any time during the year in any contract of significance with the Company. Details of Directors' interests in other companies are disclosed in note 28 to the Statutory Accounts.

Remuneration

The Directors' Remuneration Report, which includes a statement on the Company's policy on Directors' remuneration, is set out on pages 54 to 60.

Re-appointment

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

Performance and effectiveness reviews

During the year, the Board 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 except for the Nomination and Remuneration Committee.

Shareholder relations

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

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 key risks on a monthly basis and identify ways in which to enhance the control and audit arrangements in the Company.

The Audit Committee receives quarterly reports from the Executive Committee 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.

The Internal Audit Function reports on significant control issues to the Audit Committee and provides independent, objective assurance and advice on the control environment, risk management framework and corporate governance. 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 2011 and up to the date of the approval of the Annual Report and Accounts. Work continues to review and improve the system of internal controls across the Company.

Any control weaknesses identified have action plans to remedy them. The Audit Committee and the executive management monitor those plans.

Going Concern

NI Water is subject to economic regulation rather than market competition. The Company's charges are reviewed annually by the UR. The members, taking all relevant factors into account, consider that NI Water will have adequate resources to continue in operational existence for the foreseeable future. The accounts are therefore prepared on a going concern basis.

Principal Risks

The Company is exposed to a number of commercial risks and uncertainties which could have a material impact on its business, financial condition, operations and reputation. There is 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. The failure of our assets or our inability to carry out critical operations could have a significant impact on customers and our financial position.

NI Water inherited an aged and under-funded asset base upon transfer in April 2007. The regulated business requires significant capital investment and a maintenance programme for Water and Waste Water networks and treatment facilities. There is a risk that the Company may suffer a major failure in its assets which could arise from an inability to deliver the capital investment programme for its businesses or to maintain the health of its systems. This could cause a significant interruption to the supply of drinking Water and management of Waste Water services as happened in the Freeze/Thaw.

2. Risk of not being able to deliver the targets within the funding for the PC10 period from April 2010 to March 2013.

The Board has taken the necessary steps in the approval of the PC10 funding including a Memorandum of Understanding with the Shareholder on specific risk matters. These targets are extremely challenging. A significant matter for internal control is the capacity of NI Water to continue to achieve the targets for efficiency while maintaining its essential services to customers and the environment. This is exacerbated by the increasing complexity of the changing governance model.

3. The results of NI Water's operations depend on a number of factors relating to business performance, including the ability to deliver on the anticipated cost and efficiency savings as set out in the Price Control Review.

The Company is subject to certain risks which are largely outside its control, such as energy costs, the impact of climate change, weather or unlawful acts by third parties, including pollution, sabotage or other related acts as well as the downturn in the economy which will result in a decrease in revenue. These factors may also physically damage the business or otherwise significantly affect corporate activities and, as a consequence, affect the results of operations and financial position. The high level of efficiencies required will present challenges to NI Water in how it carries out these savings whilst maintaining and delivering services to the public.

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

NI Water works closely with its environmental regulators to implement new laws and regulations. Amongst other things, these establish standards for drinking Water and discharges into the environment which affect its 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 NI Water is of the belief that it has 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 be 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. 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 information for reporting purposes. This includes working with stakeholders and ongoing work within the Business Improvement Programme which will improve the accuracy and speed of information available for reporting. There is also significant improvement in resolving the non-domestic data and billing issues through the undertakings provided to the UR agreed under the Licence.

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

The Company is continuing to work closely with the Shareholder to ensure that the implications of any emerging proposals for domestic charging are fully analysed, managed, delivered and communicated to the public in a clear and responsive manner.

Statement on Internal Control

Scope of responsibility

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

NI Water is a Government Owned Company (GoCo) and complies, in so far as it is relevant, with the Combined Code of Corporate Governance applicable to its GoCo status (where NI Water does not comply it explains this as required by the Combined Code of Corporate Governance). It is also categorised as a NDPB sponsored by DRD. The governance arrangements between NI Water and DRD are established through governance letters issued by DRD. These comply with the best practice standards of regularity and propriety in the use of Public Funds and the principles of MPMNI. DRD approves NI Water's Corporate and Business Plan and regularly reviews the Company's performance against its targets.

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure, to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Company's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control also considers the impact of the risks crystallising and seeks to demonstrate their efficient, effective and economical management.

During the first part of the year NI Water did not have the required number of members (Non-Executive Directors), and therefore the Board met to address Audit Committee matters. Full details are provided in the Corporate Governance section of this Report.

Subject to the above, the system of internal control has been in place in NI Water for the year ended 31 March 2011 and up to the date of approval of the Annual Report and Accounts, and accords with Department of Finance and Personnel's and Treasury's guidance, where appropriate.

Capacity to handle risk

NI Water's Risk Management Policy is updated on an annual basis and clearly states the roles and responsibility of Board, Committees of Board and the Executive Committee. The roles and responsibilities of Directors and employees are clearly defined. There is a transparent chain of accountability from the Accounting Officer to all employees. The Policy provides guidance on how to implement risk assessments and how to manage risk to an acceptable level as determined by the Board. There is an ongoing process for identifying, evaluating and managing strategic risks across the business. The use of risk management is continuing to be embedded in wider management processes. Risk Registers have been developed for each significant area of the business, including major projects. These Risk Registers describe how risks are managed. NI Water has an established Audit Committee, a sub-committee of the Board. The Audit Committee reviews reports from management and from the Company's Internal and External auditors. The Board reviews and monitors the management of significant risks on a monthly basis, which allows the Board to have an oversight of the robustness of the Risk Management Framework. These updates are also provided to DRD.

A clear statement of the importance NI Water attributes to risk management, in terms of the achievement of the Company's objectives, has been conveyed to employees through its intranet (Source). Employees understand their responsibilities and are continually updated on risk management within their area of work. A programme of management training is currently being rolled out to all levels of management and includes specific training on risk management.

Corporate governance and risk assurance is scrutinised by Internal Audit on an annual basis and the findings were included in the Internal Audit Annual Statement to the Audit Committee. Risk management procedures are benchmarked against other industry and public sector best practice.

The risk and control framework

The management team meets at the end of every financial year to evaluate the effectiveness of the risk management framework and to agree the necessary improvements required to address evolving business needs. This process is facilitated by the completion of a questionnaire on the review of effectiveness of risk management and identifies current and future corporate strategic risks. A benchmark report of corporate risks identified by other Water and Waste Water entities, key matters identified in the Internal Audit Annual Opinion, the Accounting Officer's Annual Assurance Statement, changes in legislation and Government guidance and a review of emerging business risks are used to inform the corporate risks to be managed in the next financial year.

During the financial year, the Company manages Corporate and directorate Risk Registers, with allocated risk owners. These Registers are reviewed on a monthly basis by management. They are updated and reported to the Executive Committee with comparisons of perceived risk against NI Water's 'risk appetite'. These risks drill down to business units and to programmes or projects levels as appropriate. Directorate risks are also escalated to senior management's attention in accordance with 'risk appetite'.

The 'risk appetite' is the broad-based amount of risk NI Water is willing to accept in pursuit of its mission and business objectives. This would include any current risks graded as below medium. The Audit Committee make recommendations to the Board including the review and approval of the appropriate risk appetite. The Board then approve the level of risk appetite and reviews the action plans in place to manage the consequences of risk, should they occur.

Risks are escalated to management and Board through the monthly reporting process or through an established escalation process designed to alert the Chief Executive, Board and Stakeholders (EPIC[57] report) of significant new issues. The Board monitors the progress of managing risks through the monthly progress report which sets out movements in the rating of corporate risks and the reasons for changes. The Board provides a monthly risk management report, at a strategic level, to the DRD Shareholder Unit. Risk management is a permanent agenda item in the Quarterly Shareholder Meetings (QSMs) held between the Board of NI Water and the Shareholder (DRD's Permanent Secretary attends). Other stakeholders are involved in managing risks which impact on them.

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

---

[57] Escalation Procedure to Inform the Chief Executive - a document management system that provides easy access to the company's emergency planning documentation.

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

- Improvements made to the Major Incident Plan following the December 2010 Freeze/Thaw incident and further actions to improve are ongoing;
- An end-to-end Procurement Governance review by Internal Audit during the year ended 31 March 2010 concluded that controls were generally designed effectively within the end to end process. It recognised that the plan to regularise the previously identified irregular contracts was a longer term project over the next 18 to 24 months;
- Further enhancements to the goods, services and capital procurement controls and processes have been implemented;
- The implementation of a Corporate Compliance Framework;
- The development and approval of an IT Strategy has been completed;
- Further improvement in planning, management, monitoring and reporting of benefits;
- Improvement in the management of claims handling following the process being brought fully in-house;
- Improvement in the controls surrounding income forecasting, monitoring and reporting;
- Evidence of wider application of project management governance under the PRINCE2[58] principles;
- The implementation of Business Continuity Plans across the business and ongoing development of IT Disaster Recovery Plans;
- Improved clarity and awareness raising over the Financial Delegations; and
- Refinements to Policies and Procedures to comply with MPMNI.

Besides the ICC other groups meet on a regular basis to manage and report on Health and Safety, Environmental, Capital Works and Business Improvement risks. The existing controls and required actions identified are reflected in the relevant Corporate Risk Reports for the purpose of updating management and the Board. The Head of Corporate Governance meets on a one-to-one basis with Directors and senior managers on a quarterly basis to provide a challenge function and ensure consistency in the management and reporting of Corporate Risks. Further meetings are held with management at a functional level to identify both emerging risks and the key learning points for improving governance and risk management.

NI Water's risk register is managed through software that is updated on an online basis. It is accessible by employees and is password protected. Access rights are restricted according to the employees' respective roles and responsibilities. Both actions to reduce risk exposure and actions to improve controls are recorded with a full audit trail. These actions are synchronised with NI Water's risk matrix, allowing NI Water's risks to be graded and automatically colour coded to facilitate the prioritisation of risk reporting according to NI Water's risk appetite.

NI Water is proactive in developing and implementing policies and procedures to manage data quality. Information risk management and data quality are key aspects of information governance and is an integral part of good management to achieve the obligations of the legally binding data 'Undertakings' provided to the UR. These Undertakings represent an obligation to improve systematically the quality of NI Water's data. A range of work plans and process mapping activities through the Business Improvement Programme have been completed thus improving the quality, reliability and security of information. Over the past year internal audits were conducted on 'Data Quality', while reviews on the progress of implementation of previous internal audit recommendations regarding information management were conducted, with some areas for further improvement. The Chief Information Officer (CIO) is charged with overall responsibility for

[58] PRINCE2 (**PR**ojects **IN** **C**ontrolled **E**nvironments) is a process-based method for effective project management. It is a de facto standard used extensively by the UK Government and is widely recognised and used in the private sector, both in the UK and internationally.

information risk policy. Policies and guidance are in place to manage information risk including IT Security policy, Laptop Security policy, Data Protection policy and guidance, Document and Information Security Policy (including protective marking). Mandatory on-line training was provided to all relevant staff during the year to raise awareness of the requirements. To further mitigate information security risk an Electronic Data Records Management System (EDRMS) has obtained budgetary approval and is in the early design stages with implementation targeted for early 2012.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the executive managers within NI Water, who have responsibility for the development and maintenance of the internal control framework, and I am also informed by comments made by the External Auditors in their management letter and other reports, and the Reporter's report on Systems of Planning and Internal Control. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system of internal control is in place.

A formalised assurance framework to assist me in assessing the extent of compliance with the specified responsibilities, including the effectiveness of the systems of internal control has been developed. This assurance mechanism has been completed as part of an ongoing process.

I am also informed by:

- Board Reports including regular monthly agenda items on Health and Safety; Procurement; Internal Audit and Risk;
- Audit Committee Reports, including a summary of the main audit issues;
- Periodic financial management and reports comparing performance against agreed budgets;
- Risk reports and risk registers, including the Corporate Risk Register co-ordinated by the Corporate Governance team;
- Mid-Year and Year-End Assurance Statements by the Executive Committee;
- Subsidy Assurance Statement;
- Internal Audit reports;
- Reports from the Procurement Compliance Officer;
- Fraud, Theft and Whistle-blowing reports;
- Analysis of Key Performance Indicators;
- External Audit reports;
- Reporter's reports;
- Corporate Compliance Framework bi-annual report to Board;
- Annual statement of assurance to the Accounting Officer and Audit Committee from the Internal Auditors; and
- Board oversight and governance.

An action plan is developed at the beginning of the year to implement the significant Internal Audit recommendations and to address significant internal control issues. The Audit Committee monitors the progress in the implementation of the plan. A monthly progress report is presented to the Board and a quarterly report to the Shareholder Unit, to ensure that these actions are completed within agreed timescales. The year-end Management Assurance Statements now include a list of evidence to support management's response and the associated risks. Taking account of the aforementioned matters, I am satisfied that the internal control framework in operation in NI Water requires moderate improvement as outlined in the annual Internal Audit Assurance Statement.

The Audit Committee reviews and approves the coverage of the Internal Audit Strategy on an annual basis. The strategy can be flexed during the year to take account of changes in the risk profile. The Audit Committee regularly considers the effectiveness of internal controls during the year via regular progress reports from Internal Audit to each Audit Committee meeting. Internal Audit independently follows up on the implementation of audit recommendations and reports any slippage to each Audit Committee meeting. The Audit Committee also monitors the implementation of External Audit Management Letter Points via independent progress reports from Internal Audit.

Significant internal control issues

Whilst there is an adequate system of internal controls in place in NI Water, a number of significant internal control issues have been identified by the Board. Action plans are in place to address any weaknesses of these significant internal control issues, which include procurement of goods and services, the Major Incident Plan and Data Integrity. The steps taken to address any weaknesses in significant internal controls are outlined below and explain the role the Board and I are taking in addressing and mitigating against any risks inherent in these weaknesses.

1. Four out of five of the Non-Executives were removed in March 2010 and the previous Chief Executive resigned in January 2011. The Chairman, Chief Executive and three out of four Non-Executives are interim appointments. Permanent Non-Executive appointments are currently being recruited by DRD. The organisation has had four Chief Executives, including two interim appointments, in less than three years. NI Water has faced a sustained period of restructuring and staff reduction. A new structure for Operations / Customer Service Delivery has been created and a new Director appointed last year. There have also been changes in key senior level appointments for Communications, CIO and the Engineering Procurement directorate this year. NI Water would benefit from a period of Board stability and the time and space to develop and implement a corporate plan to deliver a more efficient service. The appointment of permanent Non-Executive Directors is due to be completed soon and this will provide the required Board stability and improvements to the Governance Framework.

2. The two recent Public Accounts Committee (PAC) reports consist of a number of recommendations that will take time to implement. These being:
   - PAC report on ‘Measuring the Performance of NI Water’ (12 recommendations); and
   - PAC report on ‘Procurement and Governance in NI Water’ (23 recommendations).

   Action plans have been put in place to manage the delivery of these recommendations in collaboration with appropriate stakeholders, the completion of which should improve the internal controls of the Company.

3. The ‘Utility Regulator's report of the investigation into the Freeze/Thaw incident 2010/11’ made 56 recommendations for improvement. Action plans had been put in place to improve the Company’s response to such incidents. These plans have since been expanded to consider the UR’s recommendations with ongoing discussion to agree completion dates. Progress of completion will be reported to DRD on a regular basis.

4. Irregularities in procurement were reported in last year’s Statement on Internal Control, following a review by the Company’s internal audit team, and then a report by an Independent Review Team. A revised Governance Letter was issued to NI Water on 18 November 2010 requiring the Company’s Annual Report and Accounts for the year ended 31 March 2011 to include an opinion on regularity. This is in addition to the requirements of the Companies Act 2006 and any other relevant legislation. The regularity opinion is qualified for the year ended 2011 in respect of procurement and contract management issues. A Board Procurement Sub-Committee has been established (with a majority of Non-Executive Directors) to further improve controls and

Board's oversight of procurement governance. A Procurement Compliance Officer (PCO) has also been appointed to monitor compliance on an ongoing basis. A recent Internal Audit review has confirmed that controls are now generally appropriately designed and operating effectively, many of these as a result of the implementation of the Purchase to Pay (P2P) system; some minor exceptions in the operating effectiveness of some of the controls were noted as well as some opportunities to further enhance or supplement existing controls. Such minor exceptions are to be expected in the bedding in period of the new system. The regularisation of previous procurement breaches identified will take up to 24 months to complete and is resource dependent. A project plan has been developed for the regularisation of contract exceptions and progress against this will be closely monitored by the NI Water Board. The scheduled date of completion for this project is early 2012 and, as such we expect to continue to report irregularities in the year ended 31 March 2012. Further details are provided in ***Appendices D*** and ***E.***

5 NI Water has reduced its number of staff from approximately 2,000 at the beginning of 2005/06 to 1,300 in 2011 while at the same time delivering the operational efficiency targets, required in the Strategic Business Plan 2007-10. NI Water is facing extremely challenging efficiency targets for PC10 to achieve the operational expenditure levels set by the UR for 2012-13. The staff reduction target for PC10 will be particularly challenging. A significant matter for internal control is the capacity of NI Water to continue to achieve the targets for efficiency while maintaining its essential services to customers and the environment. The capacity of the organisation to quickly become more efficient and effective, during a sustained period of restructuring and people efficiency, may be exceeded and this will increase the risk of operational and service failure. This is exacerbated by the increasing complexity of the changing governance model. Management is currently embarking on a 'Talent Management Succession Planning Strategy' and is also reviewing the whole workforce structure through a 'Management Development Programme' for Levels 3, 4 and 5, to improve capability. These programmes and the actions identified in the Corporate Risk will reduce the risks associated with workforce management.

6 In order to address legacy data integrity issues and to meet the Undertakings provided to the UR, a systematic programme of work is underway. Oversight of the programme is achieved through an established Data Quality Work Stream Board. Building on the work to date, there is a three year programme of work through which NI Water continues to implement agreed actions in order to gain the necessary assurances on material data issues that have been identified. A key area of focus is customer data in areas such as customer numbers, meters, properties and customer data used for tariff setting. Even though a structured programme is in place and improvements have been made to the control and governance framework of the programme, as the cleansing activity continues to uncover issues with legacy customer data, NI Water may have to initiate back billing or refunds to customers causing a continued impact on reputation. Due to the latter point, the corporate risk rating for data quality remains at 'red'[59].

[59] A risk rating of 'red' is high.

7 A number of asset data and information gaps were identified through the Asset Data Requirements Project and the Asset Data Acquisition and Improvements project is designed to address some of the asset data shortfalls. Collation of asset data as part of the business as usual activities need to improve. This project is to be incorporated under the Data Quality Work Stream Board governance to enable appropriate oversight and technical support.

Trevor Haslett
Accounting Officer
6 July 2011

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 DRD.

Nomination and Remuneration Committee

The duties of this Committee have been carried out by Board members when necessary since March 2010.

The terms of reference of the Nomination and Remuneration Committee are available by writing to our Company Secretary at the address on the back cover of this report.

Advice to the Nomination and Remuneration Committee

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

- PricewaterhouseCoopers (financial advisors);
- Chief Executive (resigned 7 January 2011);
- Interim Chief Executive (appointed 7 January 2011);
- HR Director; and
- General Counsel and Company Secretary.

Remuneration Policy

The Company's policy on remuneration of Executive Directors and Executives is to attract, retain and motivate the best people, recognising the input they have to the 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 discretionary performance related bonus designed to incentivise Directors and align their interests with those of the Shareholder. The remuneration consists of the following elements:

Base salaries

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. Notwithstanding this policy the Company has been subject to a pay freeze in 2010/11 as a result of the NI Executive's decision to apply the Coalition Government's pay freeze for public sector staff (except for those earning £21,000 or less). Fees paid to Executive and Non-Executive Directors are shown at ***Figures 7*** and ***8*** below.

Annual Bonus

Discretionary bonus schemes for Executive Directors and Executives are subject to Shareholder approval. There was no such scheme in place in 2010/11 for Executive Directors and Executives.

Benefits in kind

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

Non-Executive Directors' remuneration

The Chairman receives a fee of £833[60] per day and the Non-Executive Directors receive a fee of £750 per day. Further details on the attendance by the Chairman and the Non-Executive Directors are provided on page 43.

Directors' Employment Contracts

Executive Directors transferred from NI 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 NICS Employee 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 (Northern Ireland) as at 1 April 2007. The Executive Directors who transferred to NI Water automatically became members of the new scheme and in January 2009 took a decision whether to transfer their benefits accrued in the Principal Civil Service Pension Scheme (Northern Ireland) to the NI Water scheme. Pension benefits due to Executive and Non-Executive Directors are shown at ***Figures 9*** and ***10*** below. The Premium section of the Scheme was closed to new starts with effect from 30 November 2010. The Trustees have agreed to manage the Scheme under the existing balance of powers by creating a separate Career Average Earnings (CARE) section in the Trust Deed and Rules. Further details on pensions are provided in note 20 to the financial statements.

Transfer Values

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

Increase in transfer value less Directors' contributions

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

[60] The fee per day is £833 for up to four days per month and increases to £1,000 per day for any additional days. There is no increased rate per day for the other Non-Executive Directors.

Figure 7 – Fees paid to members of the Executive Committee

	Year to 31 March 2011				Year to 31 March 2010			
	Salary and allowances £000	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Total £000**	Salary and allowances £000	Bonus[61] £000	Benefits in kind (to nearest £100)	Total £'000
Current Executive Directors:								
Trevor Haslett (Interim Chief Executive – appointed 7 January 2011)	**100 – 105 (125-130 full year equivalent)**	**-**	**-**	**100 - 105**	95 - 100	5 - 10	-	105 - 110
Ronan Larkin	**105 - 110**	**-**	**-**	**105 - 110**	115 - 120	5 - 10	-	125 – 130
George Butler	**105 - 110**	**-**	**-**	**105 - 110**	105 - 110	10 - 15	-	115 - 120
Sara Venning (appointed 21 May 2010)	**110 – 115 (115-120 full year equivalent)**	**-**	**-**	**110 - 115**	-	-	-	-
Current members of the Executive Committee (not Executive Directors):								
Bill Gowdy (Acting Director of Engineering and Procurement from 7 January 2011)	**15 - 20**	**-**	**-**	**15 - 20**	-	-	-	-
Mark Ellesmere	**100 - 105**	**-**	**-**	**100 - 105**	100 - 105	-	-	100-105
Former Executive Director:								
Laurence MacKenzie (Chief Executive - resigned 7 January 2011)	**240 - 245[62] (180 – 185 full year equivalent)**	**-**	**-**	**240 - 245**	130 - 135	-	-	130 - 135
Former member of the Executive Committee (not Executive Director):								
Pauline Shepherd (retired 8 May 2011)	**85 - 90**	**-**	**-**	**85 - 90**	90 - 95	-	-	90 - 95

[61] The bonus paid in the year to 31 March 2010 relates to the year to 31 March 2009.
[62] Includes amounts paid on departure in line with service contract.

Figure 8 – Fees paid to Non-Executive Directors

	Year to 31 March 2011				Year to 31 March 2010			
	Salary and allowances £000	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Total £000**	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £'000
Current Non-Executive Directors								
Seán Hogan - Chairman (appointed 24 March 2011)	**-** **(40 – 45 full year equivalent)**	**-**	**-**	**-**	-	-	-	-
Donald Price	**15 - 20**	**-**	**-**	**15- 20**	20 - 25	-	-	20 – 25
Peter Bunting (appointed 21 June 2010)	**15 – 20** **(15 – 20 full year equivalent)**	**-**	**-**	**15 - 20**	-	-	-	-
Kevin Steele (appointed 21 June 2010)	**15 - 20** **(15 – 20 full year equivalent)**	**-**	**-**	**15 - 20**	-	-	-	-
Lawson McDonald (appointed 21 June 2010)	**15 - 20** **(15 – 20 full year equivalent)**	**-**	**-**	**15 - 20**	-	-	-	-
Former Non-Executive Directors								
Padraic White – Interim Chairman (appointed 9 August 2010, resigned 25 April 2011)	**25 – 30** **(35 – 40 full year equivalent)**	**-**	**-**	**25 - 30**	-	-	-	-
Máirtín Ó Muilleoir (appointed 30 June 2010, resigned 7 December 2010)	**5 - 10** **(10 – 15 full year equivalent)**	**-**	**-**	**5 - 10**	-	-	-	-

Figure 9 – Pension benefits for members of the Executive Committee

	Accrued pension at age 60 at 31 March 2011	Related lump sum at 31 March 2011	Real increase in pension at age 60	Real increase in lump sum at age 60
	£000	£000	£000	£'000
Current Executive Directors:				
Trevor Haslett (Interim Chief Executive – appointed 7 January 2011)	55 - 60	165 - 170	0 – 2.5	0 – 2.5
Ronan Larkin	10 - 15	-	0 – 2.5	-
George Butler	10 - 15	-	0 – 2.5	-
Sara Venning (appointed 21 May 2010)	0 - 5	-	0 – 2.5	-
Current members of the Executive Committee (not Executive Directors):				
Bill Gowdy (Acting Director of Engineering and Procurement from 8 January 2011)	0 - 5	10 – 15	0 – 2.5	-
Mark Ellesmere	5 - 10	-	0 – 2.5	2.5 - 5
Former Executive Director:				
Laurence MacKenzie (Chief Executive - resigned 7 January 2011)	0 - 5	-	0 – 2.5	-

Figure 10 – Pension (CETV) benefits for members of the Executive Committee

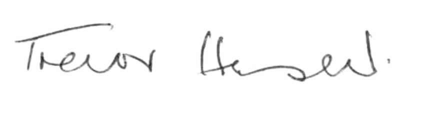
	CETV at 31 March 2011 **£000**	CETV at 31 March 2010 £000	**Increase in transfer value less Director's contribution** **£000**	**Employer contribution (to nearest £100)**
Current Executive Directors:				
Trevor Haslett (Interim Chief Executive – appointed 7 January 2011)	**1,435**	1,533	**(100)**	**27,800**
Ronan Larkin	**152**	129	**19**	**29,300**
George Butler	**189**	161	**24**	**29,300**
Sara Venning (appointed 21 May 2010)	**25**	-	**21**	**30,000**
Current members of the Executive Committee (not Executive Directors):				
Bill Gowdy (Acting Director of Engineering and Procurement from 8 January 2011)	**97**	61	**35**	**17,600**
Mark Ellesmere	**113**	93	**16**	**27,900**
Former Executive Director:				
Laurence MacKenzie (Chief Executive - resigned 7 January 2011)	**74**	36	**33**	**39,200**

Exit packages

The exit packages for employees who left the Company during the year are reported in ***Figure 11*** below. The majority of the exit packages relate to the VER/VS schemes which were used to facilitate the targeted reduction in headcount. The VER/VS schemes are similar to the NICS scheme and incorporate the provisions of relevant age discrimination legislation. All applications are considered in terms of overall cost and business need. Overall cost in individual cases is based on length of service and pensionable pay figures.

Figure 11 – Exit packages for employees who have left the Company (excluding ill-health retirees)

Exit package cost band	**Number of compulsory redundancies 31 March 2011**	**Number of other departures agreed 31 March 2011**	**Total number of exit packages by cost band 31 March 2011**	Number of compulsory redundancies 31 March 2010	Number of other departures agreed 31 March 2010	Total number of exit packages by cost band 31 March 2010
£000						
0 – 10	**-**	**-**	**-**	-	4	4
10 – 25	**-**	**13**	**13**	1	40	41
25 – 50	**-**	**7**	**7**	-	13	13
50 – 100	**-**	**13**	**13**	-	19	19
Above 100	**-**	**7**	**7**	-	15	15
Total	**-**	**40**	**40**	**1**	**91**	**92**



Trevor Haslett
Interim Chief Executive
6 July 2011

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and the relevant provisions of the Water and Sewerage Services (Northern Ireland) Order 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Mark Ellesmere
Company Secretary
6 July 2011

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 2011 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows 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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As described in the statement of Directors' responsibilities set out on page 61 the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Company's affairs as at March 2011 and of its profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the EU; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Independent Auditor's Report to the Members of Northern Ireland Water Limited (continued)

Qualified opinion on regularity arising from expenditure not conforming to the relevant financial delegations and procurement guidelines

Significant weaknesses in procurement practices in the company were identified in 2010 as a result of an internal review. An independent review, subsequently commissioned into these practices, identified that significant exceptions had arisen in the framework of control for procurement and contract management, and in the application of the financial delegations framework. According to this review the system of internal control was shown to be inadequate in this area. The review also questioned, but never concluded, whether there had been a systemic failure extending as far back as pre-vesting (April 2007).

As a result of these initial findings, the company was directed by the Department for Regional Development on 18 November 2010, under its Financial Memorandum, to obtain a regularity audit opinion in respect of the 2010-2011 financial year.

We are required to obtain sufficient evidence to give reasonable assurance that the expenditure reported in the financial statements has been applied to the purposes intended by DRD and the financial transactions confirm to the authorities which govern them.

In this regard, we carried out sample testing on the regularity of expenditure and identified £4.7m of irregular expenditure in this reporting period. The reasons for this irregular expenditure are:

1. Non-compliance with established procedures in respect of single tender actions
2. Breaches of internal delegation limits and procurement guidelines provided by DRD/DFP
3. Potential breaches of the Utilities Contract Regulation 2006.

This expenditure is deemed to be irregular as it did not conform to the relevant financial delegations and procurement guidelines. The level of the irregularities in respect of 2010/11 amounted to approximately £4.7m.

In our opinion, except for the irregular expenditure incurred where proper approval was not obtained, in all other material respects the expenditure (disbursed) and income (received) have been applied to the purposes intended by the Department for Regional Development as set out in their direction to the Company of 18th November 2010 and the financial transactions conform to the authorities which govern them.

Further details of the qualification on irregular expenditure can be found in our report on page 180.

Arthur O'Brien (Senior Statutory Auditor)
for and on behalf of KPMG, Statutory Auditor
KPMG Chartered Accountants
16 – 25 College Square East
Belfast BT1 6DH
6 July 2011

Statutory Accounts

Statement of financial position

	Note	**At 31 March 2011 £000**	At 31 March 2010 £000	At 1 April 2009 £000
Assets				
Property, plant and equipment	*11*	**2,013,407**	1,858,694	1,551,278
Intangible assets	*12*	**19,957**	25,125	23,852
Other investments	*13*	**106**	106	106
Employee benefits	*20*	**6,197**	3,175	8,251
Total non-current assets		**2,039,667**	1,887,100	1,583,487
Inventories	*15*	**1,869**	1,870	1,901
Trade and other receivables	*16*	**20,397**	25,403	16,786
Prepayments		**9,889**	17,047	13,271
Cash and cash equivalents	*17*	**15,836**	13,416	24,314
Assets classified as held for sale	*4*	**175**	71	107
Total current assets		**48,166**	57,807	56,379
Total assets		**2,087,833**	1,944,907	1,639,866
Equity				
Share capital	*18*	**500,000**	500,000	500,000
Statutory distributable reserve	*18*	**171,690**	171,690	171,690
Retained earnings	*18*	**154,896**	109,305	95,623
Total equity attributable to owner of the Company		**826,586**	780,995	767,313
Liabilities				
Loans and borrowings	*19*	**967,543**	866,515	627,553
Other payables	*23*	**1,377**	331	2,418
Deferred income	*21*	**7,310**	7,657	8,003
Provisions	*22*	**8,358**	15,767	13,189
Deferred tax liabilities	*14*	**146,869**	114,747	81,162
Total non-current liabilities		**1,131,457**	1,005,017	732,325
Loans and borrowings	*19*	**7,519**	5,739	2,887
Trade payables	*23*	**104,280**	122,723	118,587
Other payables	*23*	**5,871**	12,222	10,217
Deferred income	*21*	**448**	390	391
Provisions	*22*	**11,672**	17,821	8,146
Total current liabilities		**129,790**	158,895	140,228
Total liabilities		**1,261,247**	1,163,912	872,553
Total equity and liabilities		**2,087,833**	1,944,907	1,639,866

The financial statements were authorised for issue by the Board of Directors on 6 July 2011 and were signed on its behalf by:

Trevor Haslett.

Trevor Haslett,
Interim Chief Executive
6 July 2011

Statement of comprehensive income

	Note	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Revenue	5	**403,151**	377,409
Other income	6	**455**	611
Operating expenses	7	**(234,792)**	(239,361)
Research and development expenses		**(418)**	(508)
Results from operating activities		**168,396**	138,151
Finance income	9	**6,576**	4,759
Finance costs	9	**(62,800)**	(47,782)
Net finance costs		**(56,224)**	(43,023)
Profit before income tax		**112,172**	95,128
Income tax expense	10	**(31,714)**	(37,185)
Profit for the year		**80,458**	57,943
Other comprehensive income			
Defined benefit plan actuarial gains/(losses)	10	**1,161**	(9,255)
Other comprehensive income for the period, net of income tax		**1,161**	(9,255)
Total comprehensive income for the period		**81,619**	48,688
Profit attributable to:			
Owner of the Company		**80,458**	57,943
Total comprehensive income attributable to:			
Owner of the Company		**81,619**	48,688

Statement of changes in equity

		Attributable to the owner of the Company			
	Note	**Share capital £000**	**Statutory distributable reserve £000**	**Retained earnings £000**	**Total equity £000**
Balance at 1 April 2009	*18*	500,000	171,690	95,623	767,313
Total comprehensive income for the year					
Profit		-	-	57,943	57,943
Other comprehensive income					
Defined benefit pension plan actuarial losses	*20*	-	-	(12,855)	(12,855)
Deferred tax arising on losses in defined benefit plan	*14*	-	-	3,600	3,600
Total other comprehensive income		-	-	(9,255)	(9,255)
Total comprehensive income for the period		-	-	48,688	48,688
Transactions with owner, recognised directly in equity					
Distributions to owner of the Company					
Dividends to owner of the Company	*18*	-	-	(35,006)	(35,006)
Balance at 31 March 2010		500,000	171,690	109,305	780,995
Dividends per share (GBP)					0.07

Statement of changes in equity (continued)

		Attributable to the owner of the Company			
	Note	**Share capital £000**	**Statutory distributable reserve £000**	**Retained earnings £000**	**Total equity £000**
Balance at 1 April 2010	*18*	500,000	171,690	109,305	780,995
Total comprehensive income for the period					
Profit		-	-	80,458	80,458
Other comprehensive income					
Defined benefit pension plan actuarial gains	*20*	-	-	1,569	1,569
Deferred tax arising on gains in defined benefit plan	*14*	-	-	(408)	(408)
Total other comprehensive income		-	-	1,161	1,161
Total comprehensive income for the period		-	-	81,619	81,619
Transactions with owner, recognised directly in equity					
Distributions to owner of the Company					
Dividends to owner of the Company	*18*	-	-	(36,028)	(36,028)
Balance at 31 March 2011		500,000	171,690	154,896	826,586
Dividends per share (GBP)					0.07

Statement of cash flows
For the year ended 31 March

	Note	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Cash flows from operating activities			
Profit before tax		**112,172**	95,128
Adjustments for:			
Depreciation	*11*	**43,932**	35,206
Amortisation of intangible assets	*12*	**3,859**	3,634
Impairment losses on property, plant and equipment		**10,815**	-
Notional income relating to adoptions		**(46,070)**	(18,602)
Gain on sale of property, plant and equipment		**(108)**	(264)
Interest expense	*9*	**56,224**	43,023
		180,824	158,125
Changes in:			
- inventories		**1**	31
- trade and other receivables		**5,007**	(8,612)
- prepayments		**7,158**	(3,776)
- trade and other payables		**(5,350)**	(2,536)
- provisions		**(13,558)**	12,253
- excess of cash pension contributions over charge		**(779)**	(7,490)
Cash generated from operating activities		**173,303**	147,995
Cash flows from investing activities			
Interest received		**225**	247
Proceeds from sale of property, plant and equipment		**251**	494
Acquisition of property, plant and equipment, and intangible assets		**(181,894)**	(248,488)
Net cash used in investing activities		**(181,418)**	(247,747)
Cash flows from financing activities			
Proceeds from borrowings		**110,000**	170,000
Payment of finance lease liabilities		**(7,192)**	(3,480)
Interest paid		**(56,245)**	(42,660)
Dividends paid	*18*	**(36,028)**	(35,006)
Net cash from financing activities		**10,535**	88,854
Net increase/ (decrease) in cash and cash equivalents		**2,420**	(10,898)
Cash and cash equivalents at 1 April		**13,416**	24,314
Cash and cash equivalents at 31 March		**15,836**	13,416

Notes to the Statutory Accounts

1 Accounting policies

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

(b) Basis of preparation
Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the EU (IFRSs). These are the Company's first financial statements prepared in accordance with IFRSs and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

Following the implementation of IFRS, Northern Ireland Water's accounting policies, as set out below, have, unless otherwise stated, been consistently applied to all the years presented and in preparing the opening IFRS balance sheet at 1 April 2009 for the purposes of transition to adopted IFRS. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 30.

The financial statements were authorised for issue by the Board of Directors on 6 July 2011.

(c) Basis of measurement
The financial statements have been prepared on the historical cost basis except for the defined benefit asset which is recognised as the net total of the plan assets less unrecognised actuarial gains and the present value of the defined benefit obligation. This represents a material item in the statement of financial position (SOFP).

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2011. The Directors consider it appropriate and are content to adopt this approach for the following reasons:

- A market for services for the provision of Water and Sewerage services will continue to exist and a licence is in place with the UR, that is underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, that designates Northern Ireland Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland;
- The Department for Regional Development (DRD) provides substantial revenue funding to the business and will continue to do so until domestic charging is introduced;
- The DRD also provides a capital loan facility to fund the capital expenditure for the business; and
- Cashflow projections indicate that the Company will be able to meet its liabilities as they fall due.

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

(e) Use of estimates and judgements
The preparation of the financial statements, in conformity with IFRSs, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- Note 11 – impairment of assets
- Note 20 – measurement of defined benefit pension obligations
- Notes 22 and 27 – provisions and contingencies.

2 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position at 1 April 2009 for the purposes of the transition to IFRSs, unless otherwise indicated.

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

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

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

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

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

Receivables comprise of trade and other receivables (see note 16).

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Other investments
Other investments consist of ordinary shares and loan stock in WRc PLC (see note 13). These are valued at cost less any impairment.

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

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

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

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

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

The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

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

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

(ii) Assets in the course of construction

Assets in the course of construction are separately classified within property, plant and equipment until the date of commission at which stage they are transferred. Depreciation on these assets is not charged until they are brought into use.

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Infrastructure assets

The infrastructure assets comprise a network of Water and Waste Water systems including mains, sewers, impounding and pumped raw Water storage reservoirs, dams, sludge pipelines and sea outfalls. All items of property, plant and equipment within infrastructure assets are subject to depreciation.

In accordance with the transition provisions of IFRS 1 (revised), the Company identified the carrying value of these assets as at the inception of the Company and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, have been subject to depreciation over their useful economic lives. All subsequent maintenance expenditure is chargeable directly to the statement of comprehensive income.

(v) Transfers of infrastructure assets from customers (Adopted assets)

The Company adopts infrastructure assets from customers, e.g., sewer pipes from property developers, which it must then use either to connect the customers to the network or to provide the customers with ongoing access to a supply of services. In some cases, the Company receives cash from customers that must be used only to acquire or construct an infrastructure asset in order to connect the customer to the network or provide the customer with ongoing access to a supply of services.

Revenue is recognised when the infrastructure assets are adopted or, in the case of cash receipts, when the service is performed, e.g., as soon as access to the Sewerage/Water network is provided.

The Company has applied the approach above from 1 April 2007.

(vi) Depreciation

Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Asset Type	**Asset Life**
Infrastructure assets	60 -150* years
Operational assets	40 - 80 years
Buildings	30 - 60 years
Fixed plant	3 - 40 years
Vehicles, mobile plant and equipment	4 - 10 years
Office equipment	3 - 10 years

* The weighted average useful economic life of infrastructure assets is approximately 96 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(c) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

NI Water invested £0.4m on research and development in 2010/11 (2009/10: £0.5m).

(ii) Other intangible assets

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Intangible assets in the course of development

Intangible assets in the course of development, e.g., internally generated software, are separately classified within intangible assets until the date of commission at which stage they are transferred. Amortisation on these assets is not charged until they are brought into use.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as occurred.

(v) Amortisation

Amortisation is based on the cost of the asset, less its residual value. Amortisation is recognised in the ‘administrative expenses’ line of the SOCI on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The useful lives are finite and are as follows for the current and comparative periods:

Asset Type	**Asset Life**
Computer software	3 – 7 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(d) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Public Private Partnerships (PPP) transactions

Where public service obligations are met in conjunction with other operators through a partnership arrangement the principles of IFRIC 12 are applied. Assets are included within property, plant and equipment and amounts due to PPP partners are included in PPP credits. Assets included in property plant and equipment are depreciated in accordance with normal accounting policies. The present value of the PPP financing is included within loans and borrowings and payments made are split between capital repayments and interest.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, that the loss event had a negative effect on the estimated future cash flows of that asset and it can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

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

(ii) Receivables

The Company considers evidence of impairment for receivables. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries, and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(iii) Non-financial assets
The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives, or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset, or its related cash-generating unit (CGU), exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Non-current assets held for sale or distribution
Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Company's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining

assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(h) Employee benefits

(i) Defined benefit plans

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.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods: that benefit is discounted to determine its present value. The fair value of any plan assets, are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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

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

(ii) Termination benefits

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

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(i) Provisions
A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(j) Revenue recognition
Revenue is recognised to the extent that it is probable economic benefits will flow to the Company and that the revenue can be reliably measured.

Revenue is not recognised until the service has been provided to the customer and is shown net of value added tax. Where services have been provided, but for which no invoice has been raised at the year end, an estimate of the value is included in revenue. For measured customers, this includes an estimate of the value of Water and Waste Water services supplied to customers between the date of the last meter reading and the year-end. For unmeasured customers billed in advance, income is deferred and released to the income statement throughout the year.

Revenue comprises: the customer subsidy provided by DRD primarily relating to the deferment of the introduction of domestic charges that were planned for 1 April 2007; charges to customers for Water and Waste Water services and related services; road drainage income from DRD; transfers of assets from customers, e.g., sewer adoptions from developers; connection and infrastructure charges and other third party contributions.

Under UK GAAP the total value of transfers of assets from customers, connection and infrastructure charges, and other third party contributions, was deducted from the costs of these assets on the balance sheet thereby netting-off to a nil balance. However, under IFRS, the transfers of assets, connection and infrastructure charges, and other third party contributions are recognised as revenue whenever the service is performed, i.e., as soon as access to the Sewerage/Water network is provided.

As permitted by the transition provisions (IFRIC 18.22[63]) the Company has opted to apply the approach above prospectively from 1 April 2007.

(k) Government grants
No new government grants were received during the year. Legacy grants to Water Service were credited to ‘deferred income’ within liabilities at fair value and are released to the SOCI evenly over the expected useful life of the relevant asset, in accordance with the provisions of the Companies Act 2006.

The Company receives government assistance, in the form of a customer subsidy, provided by DRD primarily in relation to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The customer subsidy is presented in revenue in the SOCI (see note 5).

A capital subsidy is received from DRD in relation to requisitioning of Water and Sewerage infrastructure for older properties. Similarly to all capital contributions from customers, and in accordance with IFRIC 18, this is credited directly to revenue within the SOCI (see related parties note 28).

[63] International Financial Reporting Interpretations Committee update 18.22

(l) Lease payments
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Determining whether an arrangement contains a lease
At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

(m) Finance income and finance costs
Finance income comprises interest income on funds invested and notional finance income on the defined benefit plan. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise: interest expense on borrowings; unwinding of the discount on provisions; notional interest on the defined benefit plan; and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

(n) Income tax
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is not recognised for temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Exchange differences are taken to the statement of comprehensive income (SOCI).

(p) Determination of fair values

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

(i) Investments in equity and debt securities

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

(ii) Trade and other receivables

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

(iii) Non-derivative financial liabilities

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

(iv) Deferred revenue

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

(q) 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.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2011, and have not been applied in preparing these financial statements. Other standards have not yet been adopted by the EU and these will be considered in due course.

3 Financial risk management

Overview
The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Interest rate risk;
- Foreign exchange risk; and
- Operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements. These risks are managed within the risk management framework of the company as described below.

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

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

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment deposits.

Credit control policies and procedures are determined by the company and applied by a third party collection agent. There is an 8-step process for chasing debt over an 8-week period starting from the issue of the bill through to court/litigation proceedings.

Key accounts are closely monitored by Key Account Managers. Aged debt >180 days is monitored by an aged debt team who identify and escalate genuine reasons for non payment, and perform collection and recovery activities in line with the company's policies and procedures. Depending upon the customers' circumstances, repayments plans can be offered up to a period of 12 months.

Trade and other receivables
Northern Ireland Water Limited has a statutory obligation to provide Water and Sewerage services to customers within its region. Approximately 79% of the Company's revenue is in the form of a customer subsidy provided by DRD. This primarily relates to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The credit risk in relation to the remaining 21% is mitigated by the credit control policies outlined above.

Excluding the Company's subsidy from DRD, there is no concentration of credit risk with respect to its trade receivables.

Investment deposits
In accordance with the Shareholder Governance Arrangements the main banking services were transacted through the Northern Ireland Civil Service contract. As approved by DRD, and by the Department of Finance and Personnel (DFP), other banking relationships have been instigated to manage financial counterparty risks arising from deposits of short term funds available for investment. Financial counterparty risks are managed through the use of credit limits and continuous monitoring procedures. Treasury policy is as follows:

- Less than 50% of funds held in banks other than main relationship bank (MRB);
- Maximum exposure of £30m in other banks;
- Maintain £1m in MRB;
- £3m held in instant access accounts; and
- Deposits with banks other than MRB only placed if other bank holds investment grade credit rating issued by main credit rating agency, i.e., Standard and Poor's, Moody's or Fitch.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The treasury function employs a continuous forecasting and monitoring process to manage cash, funding and liquidity risks. The treasury function invests any short term funds available for deposit based on its forecasted liquidity requirements and in accordance with the shareholder governance arrangements and the Company's treasury policies. In addition, the Company maintains the following lines of credit:

(a) £20m working capital facility provided by 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%.

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

The Company's net current liabilities can be met using the capital loan note facility (see note 19) provided by DRD and, if necessary, the facilities above.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest Rate Risk
Interest rates on 100% of borrowings at 31 March 2011 (2010: 100%) were at fixed rates. The Company has committed borrowing facilities available but unused at the year end on which interest is charged at floating rates based on LIBOR plus a margin as set out in (a) and (b) above. Interest rates on fixed term deposits are fixed for the period of investment. The Company also maintains instant access investment accounts on which interest is earned at rates based on the Bank of England Base rate.

Foreign Exchange Risk
The Company is not exposed to significant foreign exchange transactions.

Operational risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation, with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance when this is effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

Capital management
The company does not actively manage or review its capital requirements as it is not subject to externally imposed capital requirements. The Company deems its capital to consist of 500 million £1 ordinary shares, a statutory distributable reserve and a retained earnings reserve. A report on capital is prepared for the board on an annual basis to ensure adequate cover exists for the payment of the Company dividend.

There were no changes in the company's approach to capital management during the year.

Other risks
Other risks identified by the Company are outlined under 'Principal Risks' on pages 45 and 46.

4 Non-current assets held for sale

The Company's Land Management Department is focusing on selling the land assets no longer required for operational purposes. Efforts to sell the assets have commenced and a sale is expected by April 2012.

	Note	**At 31 March 2011 £000**	At 31 March 2010 £000	At 1 April 2009 £000
Property, plant and equipment	*11*	**175**	71	107

The gains on disposal of £108k (2010:£264k) for sales concluded in the year are included within 'Other income' in the SOCI.

5 Revenue

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Customer subsidy provided by DRD	**263,241**	257,437
Customer income	**67,086**	75,185
Road drainage income from DRD	**19,867**	19,670
Transfers of assets from customers	**46,070**	18,602
Connection and infrastructure charges	**5,876**	5,085
Other third party contributions	**1,011**	1,430
	403,151	377,409

Customer subsidy provided by DRD
The customer subsidy provided by DRD primarily relates to the deferment of the introduction of domestic charges that were planned for 1 April 2007.

Customer income
The revenue received (excluding VAT) in the ordinary course of business for goods and services provided and in respect of unbilled charges. These unbilled charges relate to measured customers who at the end of the financial year have consumed supplies that have not yet been billed. An estimate is made of the value of the outstanding charges at year end and this is recognised in revenue.

Road drainage income from DRD
This revenue from DRD Roads Service commenced in 2008-09 and represents the recovery of the costs incurred by the company in dealing with the run-off of Water from roads and footpaths.

Transfers of assets from customers
The Company receives items of property, plant, and equipment from customers, e.g., sewer pipes from property developers, which it must then use either to connect customers to the network or to provide customers with ongoing access to a supply of services. The deemed capital value of the transferred asset is included as revenue.

5 Revenue (continued)

Connection and infrastructure charges
Connection charges relate to the cash charge to customers to connect a property to the Water or Sewerage network. This charge covers the capital cost of the connection. Infrastructure charges are also levied at the point of connection to the network. Infrastructure charges income is used to partly fund the overall capital programme. Connection and infrastructure charges are recognised in revenue immediately when levied.

Other third party contributions
This includes customer contributions towards requisitioning of Water or Sewerage network pipes. The customer will only make a contribution when the scheme would be considered uneconomical without this contribution. Other third party contributions also include fees charged for the transfer of assets from customers ('adoption' of assets). Contributions in relation to requisitioning and other third party fees are recognised on receipt.

6 Other income

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Net gain on sale of property, plant and equipment	**108**	264
Amortisation of deferred grants and contributions	**347**	347
	455	611

7 Operating expenses

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Raw materials and consumables	**9,863**	12,236
Other operating expenses*	**117,894**	142,825
Staff costs	**57,392**	57,355
Own work capitalised	**(8,965)**	(11,895)
Depreciation and other amounts written off tangible assets	**58,608**	38,840
Total operating expenses	**234,792**	239,361

*Other operating expenses comprise:

Power	**33,872**	37,052
Rates	**11,775**	14,445
Hire and contracted services	**55,395**	76,937
Other operating expenses	**16,852**	14,391
Total other operating expenses	**117,894**	142,825

The net decrease in inventories for the year was £1k (2010: £31k).

Impairment loss on property, plant and equipment	**10,815**	-
Impairment loss on trade receivables	**1,093**	(658)
	11,908	(658)

7 Operating expenses (continued)

The impairment losses above are included within the 'operating expenses' line of the SOCI. The events and circumstances leading to the recognition of the impairment losses in property, plant and equipment are outlined in note 11.

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Auditor's remuneration:		
Audit of statutory financial statements	**85**	79
Audit of regulatory financial statements	**17**	25
Audit of whole of government account submission	**2**	4
	104	108
Amounts receivable by the auditor and its associates in respect of:		
Other services relating to taxation	**289**	189
Accounting and regulatory advice	**25**	7
	314	196
Total fees paid to the auditor	**418**	304

8 Personnel numbers and expenses

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	No. of employees Year to 31 March 2011	No. of employees Year to 31 March 2010
Directors	**9**	3
Non-industrial staff	**795**	812
Industrial staff	**547**	600
	1,351	1,415

The aggregate payroll costs of these persons were as follows:

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Wages and salaries	**42,995**	42,872
Social security costs	**3,129**	3,492
Other pension costs	**11,269**	10,999
	57,393	57,363

An amount of £7,598k (2010: 9,319k) of the above payroll costs has been capitalised as it relates to work carried out by the Company that adds to the value of property, plant and equipment and intangible assets.

8a Key management personnel short-term employee benefits

Detailed information concerning key management personnel's remuneration, bonus payments and pensions is included in the Remuneration Report on pages 54 to 60. Key management includes all board members and members of the senior management team who influence the decisions of the Company, i.e., members of the Executive Committee.

In summary, key management personnel compensation comprised:

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Short-term employee benefits	**1,033**	989
Post-employment benefits	**224**	192
Performance related	**2**	33
	1,259	1,214

The emoluments of the highest paid Director were £244k including amounts paid on departure in line with service contract (2010: £130k).

The performance related compensation paid in 2009/10 relates to the year ended 31 March 2009.

There would be amounts included in the SOCI in respect of actuarial gains and losses attributable to key management personnel, however, these have not been separately identified.

9 Finance income and finance costs

Recognised in profit or loss

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Interest income on bank deposits	**225**	252
Expected return on pension scheme assets	**6,351**	4,507
Finance income	**6,576**	4,759
Interest on pension scheme liabilities	**(5,675)**	(4,219)
Interest expense on financial liabilities measured at amortised cost	**(34,883)**	(26,375)
Interest on PPP financing arrangements	**(22,242)**	(17,188)
Finance costs	**(62,800)**	(47,782)
Net finance costs recognised in profit or loss	**(56,224)**	(43,023)

9 Finance income and finance costs (continued)

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

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Total interest income on financial assets	**6,576**	4,759
Total interest expense on financial liabilities	**(62,800)**	(47,782)

Of the above amount £35,480k (2010: £26,904k) was payable to DRD in relation to loan notes issued (see note 19 'Loans and borrowings' and note 28 'Related parties'). Interest of £636k was capitalised in the year (2010: 554k).

10 Income tax expense

	Note	**Year to 31 March 2011 £000**	Year to 31 March 2010 £000
Income tax recognised in profit or loss			
Current tax expense			
Current year		**-**	-
Adjustment for prior years		**-**	-
		-	-
Deferred tax			
(Origination) and reversal of temporary differences		**(42,951)**	(37,185)
Reduction in tax rate from 28% to 26%		**11,237**	-
	14	**(31,714)**	(37,185)
Total income tax expense	*14*	**(31,714)**	(37,185)

Income tax recognised in other comprehensive income
For the year ended 31 March

	Year to 31 March 2011			Year to 31 March 2010		
	Before tax £000	**Tax (expense) benefit £000**	**Net of tax £000**	Before tax £000	Tax (expense) benefit £000	Net of tax £000
Defined benefit plan actuarial gains (losses)	1,569	(408)	1,161	(12,855)	3,600	(9,255)
	1,569	(408)	1,161	(12,855)	3,600	(9,255)

10 Income tax expense (continued)

Reconciliation of effective tax rate

	Year to 31 March 2011		Year to 31 March 2010	
	£000	**£000**	£000	£000
Profit for the year		80,458		57,943
Total income tax expense		(31,714)		(37,185)
Profit excluding income tax		112,172		95,128
Income tax using the Company's domestic tax rate	28%	(31,408)	28%	(26,636)
Reduction in tax rate	(10%)	11,237	-	-
Non-deductible expenses	10%	(11,543)	11%	(10,549)
	28%	(31,714)	39%	(37,185)

Factors affecting future tax charge

A phased reduction in the main rate of corporation tax from 28% to 24% was announced in the emergency budget on 22 June 2010. It is expected that this future fall in the main corporation tax rate will result in a reduction of the company's deferred tax liability and future current tax charge.

11 Property, plant and equipment

	Land and Buildings £000	Infrastructure assets £000	Operational Assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**
Cost or deemed cost						
Balance at 1 April 2009	71,227	825,726	443,340	9,860	249,428	**1,599,581**
Additions	-	806	72,776	-	250,796	**324,378**
Customer contributions	2	18,173	260	-	-	**18,435**
Disposals	-	(1,528)	-	(729)	-	**(2,257)**
Transfers	3,858	215,392	100,612	695	(320,557)	**-**
Reclassification to assets held for sale	(71)	-	-	-	-	**(71)**
Balance at 31 March 2010	**75,016**	**1,058,569**	**616,988**	**9,826**	**179,667**	**1,940,066**
Balance at 1 April 2010	75,016	1,058,569	616,988	9,826	179,667	**1,940,066**
Reclassification	(355)	2,404	(2,049)	-	-	-
Additions	-	1,936	-	-	161,535	**163,471**
Customer contributions	5	44,732	1,500	-	-	**46,237**
Disposals	(9)	(1,589)	(65)	(356)	-	**(2,019)**
Transfers	15,609	54,848	107,203	1,087	(178,747)	**-**
Reclassification to assets held for sale	(175)	-	-	-	-	**(175)**
Balance at 31 March 2011	**90,091**	**1,160,900**	**723,577**	**10,557**	**162,455**	**2,147,580**

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

11 Property, plant and equipment (continued)

	Land and Buildings £000	Infrastructure assets £000	Operational Assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**
Depreciation and impairment losses						
Balance at 1 April 2009	(3,267)	(15,268)	(25,829)	(3,939)	-	**(48,303)**
Depreciation for the year	(1,102)	(11,437)	(21,079)	(1,588)	-	**(35,206)**
Disposals	-	1,527	5	605	-	**2,137**
Reclassification to assets held for sale	-	-	-	-	-	**-**
Balance at 31 March 2010	**(4,369)**	**(25,178)**	**(46,903)**	**(4,922)**	**-**	**(81,372)**
Balance at 1 April 2010	(4,369)	(25,178)	(46,903)	(4,922)	-	**(81,372)**
Reclassification	54	(519)	465	-	-	**-**
Depreciation for the year	(893)	(12,661)	(29,167)	(1,211)	-	**(43,932)**
Impairment loss	(10,438)	-	(377)	-	-	**(10,815)**
Disposals	1	1,589	65	291	-	**1,946**
Balance at 31 March 2011	**(15,645)**	**(36,769)**	**(75,917)**	**(5,842)**	**-**	**(134,173)**
Carrying amounts						
At 1 April 2009	67,960	810,458	417,511	5,921	249,428	1,551,278
At 31 March 2010	70,647	1,033,391	570,085	4,904	179,667	1,858,694
At 31 March 2011	**74,446**	**1,124,131**	**647,660**	**4,715**	**162,455**	**2,013,407**

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

Impairment loss
During the year ended 31 March 2011, the Company recognised an impairment loss of £10.81m (2010: £nil) relating to 33 surplus land and buildings assets.

The impairment arose following a professional valuation of land and buildings which are deemed to be surplus but do not meet the criteria of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. It was found that, due to the decline in the property market, the assets carrying amounts were greater than their estimated recoverable amount, i.e., fair value less cost to sell. As a result, the land and buildings assets were impaired to their recoverable amounts.

11 Property, plant and equipment (continued)

A material impairment loss of £6.50m was identified in relation to a former sewage treatment works located at Upper Falls Road. The asset was revalued to its fair value less costs to sell on the basis of market value - in accordance with the Valuation Standards (6^{th} edition) published by the Royal Institution of Chartered Surveyors - and carried out by BTW Shiells as suitably qualified external valuers. The valuation is the "estimated amount for which a property would exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Borrowing costs capitalisation
Included in the total net book value of property, plant and machinery is £636k (2010: £554k) of borrowing costs capitalised during the period using a capitalisation rate of 5.25% (2010: 5.25%).

Leased assets

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
The net book value of land and buildings comprises:			
Freehold	**73,669**	69,616	66,913
Leasehold - long and short term	**777**	1,031	1,047
Total	**74,446**	70,647	67,960

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Land within this total is not depreciated and is shown as follows:			
Freehold	**26,690**	34,681	33,977

PPP Assets
The cost and net book value of PPP assets included in property, plant and equipment are disclosed in note 29.

12 Intangible assets

	Computer software	Assets in the course of construction	**Total**
	£000	£000	**£000**
Cost			
Balance at 1 April 2009	11,685	15,982	**27,667**
Acquisitions	-	4,907	**4,907**
Transfers	6,871	(6,871)	**-**
Balance at 31 March 2010	18,556	14,018	**32,574**
Balance at 1 April 2010	18,556	14,018	**32,574**
Disposals	-	(1,309)	**(1,309)**
Transfers	6,041	(6,041)	**-**
Balance at 31 March 2011	24,597	6,668	**31,265**
Amortisation and impairment losses			
Balance at 1 April 2009	(3,815)	-	**(3,815)**
Amortisation for the year	(3,634)	-	**(3,634)**
Balance at 31 March 2010	(7,449)	-	**(7,449)**
Balance at 1 April 2010	(7,449)	-	**(7,449)**
Amortisation for the year	(3,859)	-	**(3,859)**
Balance at 31 March 2011	(11,308)	-	**(11,308)**
Carrying amounts			
At 1 April 2009	7,870	15,982	23,852
At 31 March 2010	11,107	14,018	25,125
At 31 March 2011	**13,289**	**6,668**	**19,957**

Assets in the course of construction (AICC)
Included in capitalised AICC is an amount of £2k (2010: £nil) that represents borrowing costs capitalised during the period using a capitalisation rate of 5.25% (2010: 5.25%). The disposals figure of £1,309k relates to an over accrual of costs in relation to ongoing projects at the end of 2010.

£418k (2010: £508k) of research and development expenditure was recognised as an expense during the period.

12 Intangible assets (continued)

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

Description	**Carrying amount**	**Remaining amortisation period (years)**
Mobile Work Management System	£4.87m	3
Digitisation of drainage study programme	£2.43m	17
AM Model Implementation	£1.11m	20
Customer Billing/Contacts/Mobile Work Management Project	£3.34m	Under development*
NIAMP 3	£1.71m	Under development*
Costing solution development	£1.25m	Under development*

* Assets under development are not amortised.

The contractual commitments for the acquisition of intangible assets as at 31 March 2011 are £428k (2010: £305k).

13 Other investments

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Non-current investments			
8% unsecured loan stock (15,278 units at £1 each)	**15**	15	15
15,278 ordinary 'A' shares (held at £5.95 each)	**91**	91	91
	106	106	106

The shares and loan stock relate to an investment in WRc PLC. WRc carries out research in the Water, waste and environment sectors. The market value at 31 March 2011 was £7.90 per ordinary share (2010: £9.79). The loan stock is unlisted.

14 Deferred tax assets and liabilities

The following are the deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting periods:

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets			Liabilities			Net		
	At 31 March 2011	At 31 March 2010	At 1 April 2009	**At 31 March 2011**	At 31 March 2010	At 1 April 2009	**At 31 March 2011**	At 31 March 2010	At 1 April 2009
	£000	£000	£000	**£000**	£000	£000	**£000**	£000	£000
Property, plant and equipment	**-**	-	-	**165,367**	143,430	90,828	**165,367**	143,430	90,828
Intangible assets	**-**	-	-	**1,166**	1,253	481	**1,166**	1,253	481
Employee benefits	**-**	-	-	**1,612**	889	2,310	**1,612**	889	2,310
Tax losses carried forward	**(21,276)**	(30,825)	(12,457)	**-**	-	-	**(21,276)**	(30,825)	(12,457)
Net tax (assets)/ liabilities	**(21,276)**	(30,825)	(12,457)	**168,145**	145,572	93,619	**146,869**	114,747	81,162

Movement in temporary differences during the year

	Balance at 1 April 2009	Recognised in profit	Recognised in other comprehen-sive income	Balance at 31 March 2010	Recognised in profit	Recognised in other comprehen-sive income	Balance at 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
Property, plant and equipment	90,828	52,602	-	143,430	21,937	-	**165,367**
Intangible assets	481	772	-	1,253	(87)	-	**1,166**
Employee benefits	2,310	2,179	(3,600)	889	315	408	**1,612**
Tax losses carried forward	(12,457)	(18,368)	-	(30,825)	9,549	-	**(21,276)**
	81,162	37,185	(3,600)	114,747	31,714	408	**146,869**

15 Inventories

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Raw materials and consumables	**1,850**	1,830	1,831
Work in progress	**19**	40	70
	1,869	1,870	1,901

The estimated replacement cost of the stocks included above is not considered to be significantly different to the carrying value.

In 2011 raw materials, consumables and work in progress recognised within operating costs amounted to £286k (2010: £770k). In 2011 the write-down of inventories to net realisable value amounted to £60k (2010: £136k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2010: £60k) and provision against work in progress of £nil (2010: £76k). The reversal of write-downs amounted to £76k (2010: £32k). The write-down and reversal are included in operating expenses.

16 Trade and other receivables

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Trade receivables from related parties	**1,384**	634	512
Other trade receivables	**11,354**	16,429	7,521
Other receivables	**7,659**	8,340	8,753
	20,397	25,403	16,786
Current	**20,397**	25,403	16,786

At 31 March 2011 other receivables include VAT receivable of £6,397k (2010: £5,934k) (2009: £6,774k).

17 Cash and cash equivalents

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Bank balances	**5,836**	3,416	5,314
Call deposits	**10,000**	10,000	19,000
Cash and cash equivalents	**15,836**	13,416	24,314

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in note 24.

18 Capital and reserves

Share capital

	Ordinary shares		
	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Authorised			
500m Ordinary shares of £1 each	**500,000**	500,000	500,000
Allotted called up and fully paid			
500m Ordinary shares of £1 each	**500,000**	500,000	500,000
Shares classified in Shareholder's funds	**500,000**	500,000	500,000

Ordinary shares

At 31 March 2011 the authorised share capital comprised 500 million ordinary shares (2010: 500m) with a par value of £1.

All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends as declared from time-to-time and is entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Reserves

	At 31 March 2011		At 31 March 2010	
	Statutory distributable reserve £000	**Retained earnings £000**	Statutory distributable reserve £000	Retained earnings £000
At beginning of year	**171,690**	**109,305**	171,690	95,623
Profit for the year	**-**	**80,458**	-	57,943
Dividends on shares classified as Shareholder's funds	**-**	**(36,028)**	-	(35,006)
Actuarial gains/ (losses) recognised in the pension scheme	**-**	**1,569**	-	(12,855)
Deferred tax arising on losses/ (gains) in the pension scheme	**-**	**(408)**	-	3,600
	171,690	**154,896**	171,690	109,305

Statutory distributable reserve

The statutory distributable reserve was established under enabling legislation.

Dividends

The following dividends were declared and paid by the Company.

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
7.21 pence per allotted ordinary share (2010: 7.00 pence)	**36,028**	35,006

19 Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and liquidity risk, see note 24.

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Non-current liabilities			
Capital loan notes	**737,560**	627,560	457,560
Finance lease liabilities	**229,983**	238,955	169,993
	967,543	866,515	627,553
Current liabilities			
Current portion of finance lease liabilities	**7,519**	5,739	2,887
	7,519	5,739	2,887

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

			At 31 March 2011		At 31 March 2010	
	Nominal interest rate	**Year of maturity**	**Face value £000**	**Carrying amount £000**	Face value £000	Carrying amount £000
Capital loan notes	5.25%	2027	**627,560**	**627,560**	627,560	627,560
Capital loan notes	Gilt + 0.85%	2027	**110,000**	**110,000**	-	-
PPP finance lease liabilities – Alpha	5.77%	2028	**104,840**	**104,840**	108,118	108,118
PPP finance lease liabilities – Omega	3.63%	2028	**127,291**	**127,291**	130,783	130,783
PPP finance lease liabilities - Kinnegar	3.99%	2018	**5,371**	**5,371**	5,793	5,793
			975,062	**975,062**	872,254	872,254

The Capital loan notes (denominated in GBP) have been issued under the instrument constituting £1,280,200k Fixed Coupon Unsecured loan notes 2027. Capital loan notes are issued to DRD and are repayable in full in 2027. All loan notes in issue before 31 March 2010 carry a fixed rate of interest of 5.25%. Any loan notes issued after 31 March 2010 carry fixed interest rates of 0.85% above the reference gilt rate as published by the UK HM Government Debt Management Office on the day of issue of the loan note.

19 Loans and borrowings (continued)

Finance lease liabilities
Finance lease liabilities are payable as follows:

	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	At 31 March 2011			At 31 March 2010			At 1 April 2009		
	£000	**£000**	**£000**	£000	£000	£000	£000	£000	£000
Less than one year	**29,611**	**22,092**	**7,519**	28,084	22,345	5,739	16,400	12,937	3,463
Between one and five years	**120,952**	**86,460**	**34,492**	119,165	88,093	31,072	118,433	97,991	20,442
More than 5 years	**405,206**	**209,715**	**195,491**	439,222	231,339	207,883	468,055	318,825	149,230
	555,769	**318,267**	**237,502**	586,471	341,777	244,694	602,888	429,753	173,135

Finance lease liabilities relate to PPP contracts outlined in note 29.

20 Employee benefits

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)) and a bulk transfer was paid in respect of liabilities transferred in August 2010. The Company expects to contribute approximately £11.8m to its pension plan in 2011/12.

The major assumptions used by the actuary in this disclosure:

	Conditions at 31 March 2011	Conditions at 31 March 2010
Rate of increase in salaries	**4.50%**	4.75%
Rate of increase in pensions in payment and deferred pensions	**3.50%**	3.75%
Discount rate	**5.50%**	5.75%
Inflation assumption	**3.50%**	3.75%

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.

	31 March 2011			
	Non-industrial		**Industrial**	
	Male	**Female**	**Male**	**Female**
Member age 60 (current life expectancy)	**26.5**	**29.5**	**24.8**	**27.7**
Member age 40 (life expectancy at age 60)	**28.7**	**31.6**	**26.8**	**29.7**

	31 March 2010			
	Non-industrial		Industrial	
	Male	Female	Male	Female
Member age 60 (current life expectancy)	26.4	29.4	24.7	27.6
Member age 40 (life expectancy at age 60)	28.6	31.5	26.7	29.6

20 Employee benefits (continued)

The weighted - average target asset allocations at the year-ends were as follows:

	Total scheme assets at 31 March 2011	Total scheme assets at 31 March 2010
Asset category		
Equities	**45.00%**	22.50%
Corporate bonds	**20.00%**	10.00%
Gilts	**30.00%**	15.00%
Other	**5.00%**	2.50%
Bulk Transfer	**N/A**	50.00%
	100.00%	100.00%

Scheme assets and liabilities

	Total at 31 March 2011 £000	Scheme at 31 March 2010 £000	Estimated bulk transfer at 31 March 2010 £000	Total at 31 March 2010 £000	Total at 1 April 2009 £000
Equities	**52,410**	20,900	-	20,900	11,739
Corporate bonds	**21,301**	9,164	-	9,164	11,739
Gilts	**34,581**	16,182	-	16,182	-
Other	**5,050**	1,537	-	1,537	-
Bulk transfer	**N/A**	-	49,506	49,506	44,117
Total market value of assets	**113,342**	47,783	49,506	97,289	67,595
Actuarial value of liabilities	**(107,145)**	(45,190)	(48,924)	(94,114)	(59,344)
Surplus in the scheme - pension asset	**6,197**	2,593	582	3,175	8,251
Related deferred tax liability	**(1,612)**	(726)	(162)	(889)	(2,310)
Net pension asset	**4,585**	1,867	420	2,286	5,941

20 Employee benefits (continued)

Expected rates of return on the assets in the scheme

	Conditions at 31 March 2011	Scheme conditions at 31 March 2010	Estimated bulk transfer conditions at 31 March 2010	Conditions at 31 March 2010
Equities	**7.50%**	7.50%	-	7.50%
Corporate Bonds	**5.75%**	5.75%	-	5.75%
Gilts	**4.50%**	4.50%	-	4.50%
Other	**7.50%**	7.50%	-	7.50%
Bulk transfer	**N/A**	-	6.00%	6.00%
Weighted Return	**6.19%**	-	-	6.13%

Plan assets

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

Changes in the fair value of plan assets

	Total year to 31 March 2011	Scheme year to 31 March 2010	Estimated bulk transfer year to 31 March 2010	Total year to 31 March 2010
	£000	£000	£000	£000
At the beginning of the year	**97,289**	23,478	44,117	67,595
Movement in year				
Expected return on assets	**6,350**	1,860	2,647	4,507
Contributions by plan participants	**796**	818	-	818
Contributions by employer	**13,120**	18,491	-	18,491
Actuarial gain	**1,501**	6,042	2,742	8,784
Benefits paid	**(2,797)**	(2,270)	-	(2,270)
Settlement in relation to the Alpha bulk transfer	**-**	(57)	-	(57)
Settlement in relation to the admission of Northgate as a participating employer	**-**	(579)	-	(579)
Experience adjustment following receipt of bulk transfer	**(2,917)**	-	-	-
	113,342	47,783	49,506	97,289

20 Employee benefits (continued)

Analysis of the present value of the defined benefit obligations

	Total year to 31 March 2011 £000	Scheme year to 31 March 2010 £000	Estimated bulk transfer year to 31 March 2010 £000	Total year to 31 March 2010 £000
At the beginning of the year	**94,114**	23,919	35,425	59,344
Movement in year				
Current service cost	**11,269**	7,773	-	7,773
Interest on scheme liabilities	**5,675**	1,844	2,375	4,219
Past service costs	**1,073**	3,207	-	3,207
Actuarial (gain)/loss	**(68)**	9,685	11,955	21,640
Contributions by plan participants	**796**	818	-	818
Benefits paid	**(2,797)**	(1,791)	(479)	(2,270)
Settlement in relation to the Alpha bulk transfer	**-**	(57)	-	(57)
Settlement in relation to the admission of Northgate as a participating employer	**-**	(208)	(352)	(560)
Experience adjustment following receipt of bulk transfer	**(2,917)**	-	-	-
	107,145	45,190	48,924	94,114

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

	Total year to 31 March 2011 £000	Scheme year to 31 March 2010 £000	Estimated bulk transfer year to 31 March 2010 £000	Total year to 31 March 2010 £000
Current service costs (operating costs - staff costs)	**11,269**	7,773	-	7,773
Past service costs (operating costs - staff costs)	**1,073**	3,207	-	3,207
Settlement costs (Share of fund transfer for Northgate)	**-**	371	(352)	19
Total operating charge	**12,342**	11,351	(352)	10,999

20 Employee benefits (continued)

Analysis of amounts included in other finance income

	Total year to 31 March 2011 £000	Scheme year to 31 March 2010 £000	Estimated bulk transfer year to 31 March 2010 £000	Total year to 31 March 2010 £000
Expected return on pension scheme assets	**6,351**	1,860	2,647	4,507
Interest on pension scheme liabilities	**(5,675)**	(1,844)	(2,375)	(4,219)
Other finance income	**676**	16	272	288
Total charge to profit	**11,666**	11,335	(624)	10,711

Analysis of amount recognised in statement of changes in equity

	Total year to 31 March 2011 £000	Scheme year to 31 March 2010 £000	Estimated bulk transfer year to 31 March 2010 £000	Total year to 31 March 2010 £000
Actual return less expected return on scheme assets	**1,501**	6,042	2,742	8,784
Experience gains and losses	**-**	58	(82)	(24)
Changes in assumptions underlying the present value of scheme liabilities	**68**	(9,742)	(11,873)	(21,615)
Actuarial gain recognised in other comprehensive income	**1,569**	(3,642)	(9,213)	(12,855)
Cumulative amount of actuarial gains recognised in other comprehensive income (before deferred tax)	**12,401**	1,404	9,428	10,832

20 Employee benefits (continued)

History of experience gains and losses

	2010/11	2009/10	2008/09	2007/08
Experience gains and (losses) on scheme liabilities:				
Amount (£000)	**-**	(24)	(68,458)	33
Percentage of scheme assets	**-**	-	(115)%	-
Difference between actual and expected return on scheme assets:				
Amount (£000)	**1,501**	8,784	(80,194)	8,651
Percentage of scheme assets	**1%**	9%	(119)%	7%

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

Impact of:

	Change in liability 2010/11 %	**Change in liability 2010/11 £000**	Change in liability 2009/10 %	Change in liability 2009/10 £000
+or- 0.25% in discount rate	**5.0%**	**5,000**	5.2%	5,000
+or- 0.25% in rate of inflation	**5.4%**	**5,000**	5.6%	5,000
+or- 02.5% in salary inflation	**1.9%**	**2,000**	2.2%	2,000
Increase in life expectancy of 1 year	**2.1%**	**2,000**	2.0%	2,000

21 Deferred income

Deferred income classified as current consists of the portion of deferred government grants that will be recognised as income in the next year. Deferred income classified as non-current consists of the non-current portion of deferred government grants.

	At 31 March 2011	At 31 March 2010	At 1 April 2009
	£000	£000	£000
Government grants	**7,657**	8,047	8,394
Miscellaneous income	**101**	-	-
	7,758	8,047	8,394
Non-current	**7,310**	7,657	8,003
Current	**448**	390	391
	7,758	8,047	8,394

The Company has not been awarded any government grants during the year. The grants above, previously awarded to Water Service, have been recognised as deferred income, and are being amortised over the useful economic life of the related asset.

22 Provisions

	Public liability claims	Employer liability claims	Environmental liability	Early retirement provisions	Other provisions	**Total**
	£000	£000	£000	£000	£000	**£000**
Balance at 1 April 2009	7,204	1,017	8,103	438	4,573	**21,335**
New Provisions	2,045	889	-	-	18,249	**21,183**
Utilised	(4,000)	(957)	(1,050)	(50)	(976)	**(7,033)**
Unwinding of discount	-	-	-	9	-	**9**
Amounts released unused	(1,495)	(211)	-	-	(200)	**(1,906)**
Balance at 31 March 2010	**3,754**	**738**	**7,053**	**397**	**21,646**	**33,588**
Balance at 1 April 2010	3,754	738	7,053	397	21,646	**33,588**
New Provisions	3,382	496	-	-	1,595	**5,473**
Utilised	(1,440)	(177)	-	(112)	(12,284)	**(14,013)**
Amounts released unused	(1,827)	(34)	-	-	(3,157)	**(5,018)**
Balance at 31 March 2011	**3,869**	**1,023**	**7,053**	**285**	**7,800**	**20,030**
Non-current	1,721	767	5,053	135	682	**8,358**
Current	2,148	256	2,000	150	7,118	**11,672**
	3,869	**1,023**	**7,053**	**285**	**7,800**	**20,030**

22 Provisions (continued)

Public and employer liability claims

The public liability and employer liability claims at 31 March 2011 relate to unsettled claims. The public liability claims principally relate to: previous operational incidents; contractors' business interruption incidents in prior years; and management's best estimates of claims that might arise as a result of the Water supply problems last winter. The provisions represent potential liabilities on these claims above the amount of insurance cover in place. Professional advice has been sought on the potential liability for individual claims. Claims submitted against the Company are in excess of the provisions made as management have made best estimates of the required provisions based on past experience of similar claims. Until claims are progressed through the formal claims process some degree of uncertainty will remain as to the amount and timing of any final settlement figure. The employer liability claims principally relate to incidents incurred by employees on Company premises.

A related contingent liability has also been disclosed at Note 27. The contingent liability for public and employer liability of £1.0m includes an amount relating to the value of claims received above the provision included in the financial statements.

Environmental liability

The environmental provision was calculated after carrying out an Environmental and Liability Assessment at various services sites. This provision relates to a contract which is in place to carry out the required remedial work. The amount provided represents the best estimate of the Company's liability although the exact nature and timing of the work is subject to the outcome of discussions with the environmental regulator.

Early retirement provisions

The early retirement provision relates to those retirement benefits accruing to those members who took early retirement prior to 1 April 2007. The provision represents the total of retirement benefits due to those members from 31 March 2011 to their official date of retirement. These payments are made on a monthly basis to the Department of Finance and Personnel (DFP) and the amounts and timing of these should not be subject to any uncertainty.

Other provisions

Other provisions relate to:

i) Claims arising from contractual arrangements with suppliers (including operators of PPP arrangements). These provisions of £7,800k (2010: £21,646k) represent management's best estimates of the potential liability that might arise from claims submitted by these contractors. The prior year's provision includes claims arising from contractual arrangements with suppliers which have since been settled. There is uncertainty as to the length of time it might take to reach resolution of current claims. A related contingent liability has also been disclosed at Note 27. The contingent liability for contractor claims of £5.1m includes an amount relating to the value of claims above the provision included in the financial statements.

ii) Management's best estimates of the value of unused staff holiday entitlement at the year end of £682k (2010: £706k).

22 Provisions (continued)

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

31 March 2011

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	2,148	256	2,000	150	7,118	**11,672**
In the second to fifth years	1,721	767	5,053	135	-	**7,676**
Over five years	-	-	-	-	682	**682**
	3,869	**1,023**	**7,053**	**285**	**7,800**	**20,030**

31 March 2010

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	1,005	195	2,300	200	14,121	**17,821**
In the second to fifth years	2,749	543	4,753	197	6,818	**15,060**
Over five years	-	-	-	-	707	**707**
	3,754	**738**	**7,053**	**397**	**21,646**	**33,588**

1 April 2009

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £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	-	**12,492**
Over five years	-	-	-	-	697	**697**
	7,204	**1,017**	**8,103**	**438**	**4,573**	**21,335**

23 Trade and other payables

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Trade payables to related parties	**1,016**	2,008	352
Payments received on account	**1,242**	1,634	1,465
Trade payables	**9,019**	13,074	17,886
Taxation and social security	**1,119**	1,166	1,167
Accruals	**91,884**	104,841	97,717
	104,280	122,723	118,587

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

Other payables

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Non-current	**1,377**	331	2,418
Current	**5,871**	12,222	10,217
	7,248	12,553	12,635

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

24 Financial instruments

Credit risk
Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	**At 31 March 2011 £000**	At 31 March 2010 £000	At 1 April 2009 £000
Equity securities	*13*	**106**	106	106
Loans and receivables	*16*	**20,397**	25,403	16,786
Cash and cash equivalents	*17*	**15,836**	13,416	24,314
		36,339	38,925	41,206

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

24 Financial instruments (continued)

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

	Carrying amount		
	At 31 March 2011	At 31 March 2010	At 1 April 2009
	£000	£000	£000
End-user customers	**11,354**	16,429	7,521
Other	**9,043**	8,974	9,265
	20,397	25,403	16,786

The maximum exposure to cash and cash equivalents (note 17) is £15,836k (2010: £13,416k) (2009: £24,314k).

Impairment losses

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

	Gross	**Impairment**	Gross	Impairment	Gross	Impairment
	At 31 March 2011		At 31 March 2010		At 1 April 2009	
	£000	**£000**	£000	£000	£000	£000
Not past due	**23,350**	**1,001**	33,580	236	25,820	129
Past due 0-30 days	**3,170**	**511**	2,749	103	1,572	40
Past due 31-60 days	**1,895**	**115**	1,876	50	913	26
Past due 61-90 days	**1,009**	**170**	1,236	32	685	21
Past due 91-120 days	**570**	**287**	899	189	825	172
Past due 121-150 days	**480**	**315**	633	230	495	169
Past due 151-365 days	**2,981**	**1,994**	3,202	1,979	2,692	2,623
Past due 1-2 years	**1,424**	**1,424**	1,977	1,799	1,160	2,112
Past due 2+ years	**2,641**	**1,417**	2,437	1,521	1,202	15
	37,520	**7,234**	48,589	6,139	35,364	5,307

The Company holds no collateral in respect of these financial assets. The aging of trade and receivables is based on detailed trade receivables listings and management's best estimate of the debt profile.

The movement in the allowance for impairment in respect of receivables during the year was as follows:

	Year to 31 March 2011	Year to 31 March 2010
	£000	£000
Balance at 1 April	**6,141**	6,799
Bad debt provision utilised	**(581)**	(1,951)
Impairment loss recognised in year	**1,674**	1,293
Balance at 31 March	**7,234**	6,141

24 Financial instruments (continued)

The Company establishes an allowance for impairment based on applying expected recovery rates, based on actual historical cash collection performance, to an aged debt profile.

Customer Type	Age of Debt	Impairment %
Measured Water and Trade Effluent	Greater than 365 days	100%
	181 - 365 days	65%
	151 - 180 days	35%
	121 - 150 days	20%
	0 - 120 days	2%
Unmeasured Water	Greater than 365 days	100%
	181 - 365 days	45%
	151 - 180 days	35%
	121 - 150 days	20%
	0 - 120 days	2%

Specific allowances are applied in instances were non-collection is considered to be certain at the reporting date.

The impairment percentages above are based on historic collection rates and are reviewed for accuracy on an annual basis. The Company believes that the unimpaired amounts that are past due are still collectible and no impairment allowance is necessary in respect of trade receivables not past due.

Liquidity risk

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

31 March 2011

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6 -12 months £000	1 - 2 years £000	2 - 5 years £000	More than 5 years £000
Capital loan notes	**737,560**	(1,351,947)	(19,252)	(19,246)	(38,392)	(115,178)	(1,159,879)
Finance lease liabilities	**237,502**	(555,769)	(14,886)	(14,725)	(30,096)	(90,856)	(405,206)
Trade and other payables	**111,528**	(111,528)	(110,151)	-	-	(1,377)	-
	1,086,590	(2,019,244)	(144,289)	(33,971)	(68,488)	(207,411)	(1,565,085)

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

31 March 2010

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6 -12 months £000	1 - 2 years £000	2 - 5 years £000	More than 5 years £000
Capital loan notes	**627,560**	(1,154,801)	(16,519)	(16,519)	(32,947)	(98,840)	(989,976)
Finance lease liabilities	**244,694**	(586,470)	(13,847)	(14,236)	(28,711)	(90,454)	(439,222)
Trade and other payables	**135,276**	(135,276)	(134,945)	-	-	(331)	-
	1,007,530	(1,876,547)	(165,311)	(30,755)	(61,658)	(189,625)	(1,429,198)

Details of the timing of the cash outflows in respect of provisions are set out in note 22.

24 Financial instruments (continued)

Currency risk
The Company is not exposed to foreign currency risk.

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

	Carrying amount	
	At 31 March 2011	At 31 March 2010
	£000	£000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(865,062)**	(872,254)
	(865,062)	(872,254)
Variable rate instruments		
Financial assets	**-**	-
Financial liabilities	**(110,000)**	-
	(110,000)	-

Fair value sensitivity analysis for fixed rate instruments
The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss or cash flow.

Accounting classifications and fair values
Fair values versus carrying amounts
The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Note	**Designated at fair value £000**	**Loans and receivables £000**	**Other financial liabilities £000**	**Total carrying amount £000**	**Fair value £000**
31 March 2011						
Cash and cash equivalents	*17*	-	15,836	-	15,836	15,836
Loans and receivables	*16*	-	20,397	-	20,397	20,397
Investment securities:						
- Equity securities	*13*	106	-	-	106	106
		106	36,233	-	36,339	36,339
Finance lease liabilities		-	-	(237,502)	(237,502)	(237,502)
Trade payables		-	-	(104,280)	(104,280)	(104,280)
		-	-	(341,782)	(341,782)	(341,782)

24 Financial instruments (continued)

	Note	Designated at fair value £000	Loans and receivables £000	Other financial liabilities £000	Total carrying amount £000	Fair value £000
31 March 2010						
Cash and cash equivalents	*17*	-	13,416	-	13,416	13,416
Loans and receivables	*16*	-	25,403	-	25,403	25,403
Investment securities:						
- Equity securities	*13*	106	-	-	106	106
		106	38,819	-	38,925	38,925
Finance lease liabilities		-	-	(244,694)	(244,694)	(244,694)
Trade payables		-	-	(122,723)	(122,723)	(122,723)
		-	-	(367,417)	(367,417)	(367,417)

25 Operating leases

Leases as lessee

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

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Less than one year	**925**	925	949
Between one and five years	**219**	1,198	2,054
	1,144	2,123	3,003

The Company leases office buildings and photocopiers under operating leases. The office leases typically run for a period of five to ten years. At the landlord's discretion, lease payments may be increased every five years to reflect market rentals.

During the year ended 31 March 2011 an amount of £925k was recognised as an expense in profit or loss in respect of operating leases (2010: £925k).

The office building leases were entered into in previous years as combined leases of land and buildings. Since the land title does not pass, the rent paid to the landlord of the building may be increased to market rent at regular intervals, and the Company does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the building are with the landlord. As such, the Company determined that the leases are operating leases.

26 Capital commitments

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

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Contracted	**78,127**	75,000	101,858

In addition to the above, at the end of the financial year the Company had entered into commitments amounting to £503m (2010: £118m). These commitments relate to planned future capital spend. The contracted amount of £78m is in relation to actual spend contracted with suppliers to date.

27 Contingencies

The Company is disputing liability in some public and employer liability cases. The estimate of the financial effect is £1.0m (2010: £2.0m). It has been estimated that there is less than a 50% chance of these cases leading to a loss. If such a loss should arise there is no possibility of any reimbursement. In addition, the company is disputing a number of claims from contractors amounting to £5.1m (2010: £6.0m) 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:

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Public and employer liability	**1,047**	2,011	1,000
Contractor Claims	**5,058**	6,000	8,600
	6,105	8,011	9,600

Debenture to DRD
DRD has entered into deeds of guarantee with the concessionaires of the Alpha and Omega PPP contracts to guarantee all future liabilities of the Company under these contracts. The Company has entered into an environmental indemnity with DRD and The Department of the Environment in respect of any future environmental liabilities arising for NI Water. The Company has registered a debenture to counter indemnify DRD in relation to these three guarantees. Under this debenture the Company 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 the Company'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.

The debenture granted to DRD is a deemed insurance contract and is accounted for in accordance with IAS[64] 37.

[64] International Accounting Standard.

27 Contingencies (continued)

Contingent assets

The Company received a number of cash performance bonds from customers in relation to requisition of Water mains and Sewerage services. These balances are included in trade and other payables (see note 23) 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 considered contingent assets as an inflow of economic benefits is considered to be remote as there is no information available at this time that would indicate that the performance bonds are likely to be presented to the issuing party in respect of non-performance by the customer.

28 Related parties

Parent and ultimate controlling party

The Company is a Government owned Company and 100% owned by its ultimate controlling party DRD. The results of the Company will not be within the annual financial statements prepared by DRD nor in the financial statements of any other entity. Inter-company debtor and creditor balances with DRD and other government bodies will be supplied to DRD for the whole of government accounts. The Company transacts with other Government Departments, Agencies, and NDPBs, in the normal course of business and in accordance with standard business terms.

Related party disclosures with DRD are as follows:

	At 31 March 2011 £000	At 31 March 2010 £000	At 1 April 2009 £000
Subsidy			
Revenue subsidy from DRD (credited to revenue)	**263,241**	257,437	250,374
Revenue relating to Road Drainage (credited to revenue)	**19,867**	19,670	17,175
Revenue subsidy from DRD relating to third party contributions (credited to revenue)	**2**	56	1,033
Trade receivables - subsidy (included in Trade and other receivables note 16)	**1,102**	-	246
Trade payables - subsidy (included in Other payables note 23)	**-**	(94)	-
Other sales to DRD (credited to revenue)	**1,722**	1,769	1,346
Trade receivables - other sales to DRD (included in Trade receivables note 16)	**282**	634	266
Purchases			
Purchases from DRD (included in operating costs)	**1,550**	1,918	2,362
Trade payables - purchases from DRD (included in Trade and other payables note 23)	**1,016**	1,194	352
Loans and borrowings			
Loans from DRD during the year	**110,000**	170,000	150,000
Balance on Loans from DRD at year end (note 19)	**737,560**	627,560	457,560
Loan Interest to DRD (note 9)	**35,480**	26,904	17,886
Loan Interest owed to DRD at year end	**177**	-	-
Dividends			
Dividend to Shareholder (note 18)	**36,028**	35,006	-

28 Related parties (continued)

No guarantees are given to or received from DRD in relation to the previous balances. There are no provisions for doubtful debts related to the amounts above and no expense recognised in the year in respect of bad and doubtful debts due from DRD.

Transactions with key management personnel
Key management personnel compensation

Details of the key management personnel post-employment defined benefit plan and termination benefits are included in the Directors' Remuneration Report on pages 54 to 60.

Key management personnel compensation is disclosed in note 8a.

Key management personnel and director transactions
Donald Price is a Non Executive Director of NI Water and Chairman of the NI Water Audit Committee. He is also a Non Executive Director of Northern Bank Ltd (including various subsidiaries). Northern Bank is the principal banker for the Company.

George Butler is an Executive Director of NI Water. He is also Chairman of NI Water Pension Trust Company and a Director of the UK Water Industry Research Company (UK WIR). During the year the Company purchased £97k (2010:£106k) of services from UK WIR.

29 Service concession agreements

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 service concession arrangements with private sector companies (PPP Companies) in the form of Private Finance Initiative contracts for the supply of Water and Waste Water services.

The capital cost of each contract is included within 'property, plant and equipment' (see note 11) and as PPP creditor in 'loans and borrowings' (see note 19) in the SOFP. No changes in the arrangements occurred during the year. A description of the arrangements, their significant terms, and the nature and extent of rights and obligations are outlined on the following page.

29 Service concession agreements (continued)

Description

Kinnegar
A contract with Coastal ClearWater Limited 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 cost and net book value of assets included in PPE at 31 March 2011 is £11.82m and £7.78m respectively (2010: £11.82m, £8.11m). The amount included in PPP Creditors at 31 March 2011 is £5.37m (2010: £5.79m).

Alpha
A contract with Dalriada Water Limited was signed on 30 May 2006 for the provision of bulk drinking Water supplies. This has a capital cost in the region of £111 million. The service provision commenced roll-out from November 2008. The contract is for 25 years with an end date of 29 May 2031. The cost and net book value of assets included in PPE at 31 March 2011 is £115.96m and £107.37m respectively (2010: £113.62m, £108.85m). The amount included in PPP Creditors at 31 March 2011 is £104.84m (2010: £108.12m).

Omega
A contract with Glen Water Limited 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 cost and net book value of assets included in PPE at 31 March 2011 is £142.19m and £133.68m respectively (2010: £141.46, £137.30m). The amount included in PPP Creditors at 31 March 2011 is £127.29m (2010: £130.78m).

Significant terms

The key terms relate to the basis upon which the Company pays for the services provided by the PPP Companies. The levels of such payments are subject to performance, volume and quality targets being met, which lead to fluctuations in the amount payable. The Company also has the power to levy payment deductions where the level of service falls below pre-determined standards, primarily linked to the quality of the treated Waste Water and drinking Water.

The contracts are structured such that either party may seek to amend the basis upon which the service is provided, primarily where driven by a change in law but also by agreement to a change in the level of service or a refinancing change. This is subject to a formal variation procedure and is ultimately dependent upon the parties reaching agreement on the contractual changes required to give effect to the specific variation.

Nature and extent of rights and obligations

The Company's primary obligations are to deliver raw Water and Waste Water to the PPP companies and thereafter the Company pays for the treatment services provided, making the appropriate deduction where the PPP companies fail to meet the appropriate performance standards. The PPP companies provided the initial construction services through a sub-contract and also entered into sub-contracts for the operation and maintenance of these assets once satisfactorily commissioned. All such projects are now in their operational phase. Sites are licensed or leased to the PPP companies through the contract.

Termination in full or in part (in some circumstances) during the contractual period can arise for a number of reasons including default (by either the PPP Company or the Company), force majeure, uninsurable events or voluntary termination by the Company. Each contract contains a formula from which termination compensation payable by the Company is derived.

29 Service concession agreements (continued)

Other than each party's unilateral right to propose an amendment to a contract, the most likely circumstance which would give rise to the re-negotiation of a contract is as a result of a change in law which requires the manner in which the treatment and/or disposal service is delivered to be changed, in order to ensure it meets the requirements of such legislative changes.

The contracts also stipulate a range of 'hand-back' conditions linked to the remaining life of certain assets.

30 Explanation of transition to IFRS

As stated in note 1, these are the Company's first financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 March 2011, the comparative information presented in these financial statements for the year ended 31 March 2010 and in the preparation of an opening IFRS statement of financial position at 1 April 2009 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP (previous GAAP). An explanation of how the transition from previous GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

30 Explanation of transition to IFRSs (continued)

Reconciliation of equity

		2009			2010		
		Previous GAAP	Effect of transition to IFRSs	IFRSs	Previous GAAP	Effect of transition to IFRSs	IFRSs
	Note			1 April 2009			31 March 2010
		£000	£000	£000	£000	£000	£000
Assets							
Property, plant and equipment	*b, c, d, e, f, g*	1,429,109	122,169	1,551,278	1,621,366	237,328	1,858,694
Intangible assets	*c*	-	23,852	23,852	-	25,125	25,125
Other investments		106	-	106	106	-	106
Employee benefits	*a*	5,941	2,310	8,251	2,286	889	3,175
Total non-current assets		1,435,156	148,331	1,583,487	1,623,758	263,342	1,887,100
Inventories		1,901	-	1,901	1,870	-	1,870
Trade and other receivables	*a*	16,787	(1)	16,786	24,502	901	25,403
Prepayments	*a*	13,271	-	13,271	17,046	1	17,047
Cash and cash equivalents		24,314	-	24,314	13,416	-	13,416
Assets classified as held for sale	*d*	-	107	107	-	71	71
Total current assets		56,273	106	56,379	56,834	973	57,807
Total assets		1,491,429	148,437	1,639,866	1,680,592	264,315	1,944,907

30 Explanation of transition to IFRSs (continued)

Reconciliation of equity

		2009			2010		
	Note	Previous GAAP	Effect of transition to IFRSs	IFRSs 1 April 2009	Previous GAAP	Effect of transition to IFRSs	IFRSs 31 March 2010
		£000	£000	£000	£000	£000	£000
Equity							
Share capital		500,000	-	500,000	500,000	-	500,000
Statutory distributable reserve		171,690	-	171,690	171,690	-	171,690
Retained earnings	*i*	52,853	42,770	95,623	45,883	63,422	109,305
Total equity attributable to equity holder of the Company		724,543	42,770	767,313	717,573	63,422	780,995
Liabilities							
Loans and borrowings	*a, g*	457,560	169,993	627,553	627,560	238,955	866,515
Other payables	*a*	125,333	(122,915)	2,418	121,262	(120,931)	331
Deferred income	*a, e*	-	8,003	8,003	-	7,657	7,657
Provisions	*h*	12,492	697	13,189	15,062	705	15,767
Deferred tax liabilities	*a, b, e, f, g, h, i*	31,044	50,118	81,162	43,409	71,338	114,747
Total non-current liabilities		626,429	105,896	732,325	807,293	197,724	1,005,017
Loans and borrowings	*g*	-	2,887	2,887	-	5,739	5,739
Trade payables	*a, g*	132,311	(13,724)	118,587	137,905	(15,182)	122,723
Other payables	*a, g*	-	10,217	10,217	-	12,222	12,222
Deferred income	*a, e*	-	391	391	-	390	390
Provisions		8,146	-	8,146	17,821	-	17,821
Total current liabilities		140,457	(229)	140,228	155,726	3,169	158,895
Total liabilities		766,886	105,667	872,553	963,019	200,893	1,163,912
Total equity and liabilities		1,491,429	148,437	1,639,866	1,680,592	264,315	1,944,907

30 Explanation of transition to IFRS (continued)

Reconciliation of comprehensive income for the year ended 31 March 2010

	Note	Previous GAAP £000	Effect of transition to IFRS £000	IFRS £000
Revenue	*e*	352,292	25,117	377,409
Other income	*e*	854	(243)	611
Operating expenses	*b, g, h*	(263,091)	23,730	(239,361)
Research and development expenses		(508)	-	(508)
Results from operating activities		89,547	48,604	138,151
Finance income	*a*	540	4,219	4,759
Finance costs	*a, f, g*	(38,253)	(9,529)	(47,782)
Net finance costs		(37,713)	(5,310)	(43,023)
Profit before income tax		51,834	43,294	95,128
Income tax expense	*i*	(14,543)	(22,642)	(37,185)
Profit from continuing operations		37,291	20,652	57,943
Other comprehensive income				
Defined benefit plan actuarial losses		(9,255)	-	(9,255)
Total comprehensive income for the period		28,036	20,652	48,688

30 Explanation of transition to IFRSs (continued)

Notes to the reconciliations

(a) The layout of the IFRS statement of financial position differs from that of the UK GAAP balance sheet. As a result, there have been several reclassifications between the various categories.

The impacts arising from the reclassifications are summarised as follows:

'Deferred income' moved from UK GAAP 'Creditors' to face of SOFP	**1 April 2009**	**31 March 2010**
	£000	**£000**
Statement of financial position		
Other payables - non-current	14,525	15,125
Deferred income - non-current	(14,525)	(15,125)
Trade payables	574	605
Deferred income - current	(574)	(605)
Trade payables	45	45
Deferred income - current	(45)	(45)
Adjustment to retained earnings	-	-

'Prepayments' and 'accrued income' moved from UK GAAP 'Debtors' to face of SOFP		
Statement of financial position		
Trade and other receivables	(13,271)	(17,046)
Prepayments	13,271	17,046
Adjustment to retained earnings	-	-

'Other payables' moved from UK GAAP 'Creditors' to face of SOFP		
Statement of financial position		
Trade payables - current	10,217	11,644
Other payables - current	(10,217)	(11,644)
Adjustment to retained earnings	-	-

PPP finance leases moved from UK GAAP 'Creditors' to IFRS 'Loans and borrowings'		
Statement of financial position		
Loans and borrowings - non-current	(108,390)	(105,551)
Other payables - non-current	108,390	105,551
Adjustment to retained earnings	-	-

Pension asset is shown gross of deferred tax under IFRS: deferred tax moved from 'Employee benefits' to 'Deferred tax liabilities'		
Statement of financial position		
Employee benefits	2,310	889
Deferred tax liabilities	(2,310)	(889)
Adjustment to retained earnings	-	-

30 Explanation of transition to IFRSs (continued)

Income from pension assets and liabilities is shown gross rather than netted off: income moved from 'Finance costs' to 'Finance income'	**1 April 2009**	**31 March 2010**
	£000	**£000**
Statement of comprehensive income		
Finance income		4,219
Finance costs		(4,219)
Adjustment before income tax		-

(b) Under UK GAAP, the Company employed ''Renewals Accounting'' in respect of infrastructure assets under which infrastructure renewals expenditure (IRE), relating to the maintenance of the operating capability of the network in accordance with defined standards of service, was treated as an addition and recorded at cost.

The infrastructure renewals charge (IRC) was part of the renewals accounting approach and was used as a proxy for depreciation. The depreciation charge for infrastructure assets was the estimated level of annual expenditure required to maintain the operating capability of the network, based on the Company's Asset Management Plan.

Under IFRS, renewals accounting is not permitted. Therefore, the IRC has been replaced by conventional depreciation calculated over the useful economic life of the infrastructure assets. Also, IRE relating to infrastructure repairs, which was previously capitalised under UK GAAP, is now written-off to the SOCI.

The impact arising from the change is summarised as follows:

Difference between IRC under UK GAAP and depreciation under IFRS	**1 April 2009**	**31 March 2010**
	£000	**£000**
Statement of comprehensive income		
Operating expenses		25,599
Adjustment before income tax		25,599
Statement of financial position		
Property, plant and equipment	48,680	74,279
Related tax effect	(25,693)	(39,081)
Adjustment to retained earnings	22,987	35,198

Repairs capitalised under UK GAAP, written-off to SOCI in accordance with IFRS	**1 April 2009**	**31 March 2010**
	£000	**£000**
Statement of comprehensive income		
Operating expenses		(4,702)
Adjustment before income tax		(4,702)
Statement of financial position		
Property, plant and equipment	(6,277)	(10,979)
Related tax effect	3,313	5,772
Adjustment to retained earnings	(2,964)	(5,207)

30 Explanation of transition to IFRSs (continued)

(c) In accordance with IFRS 1, an entity recognises in its opening IFRS statement of financial position all intangible assets that qualify for recognition under IAS 38. Previously, intangible assets were included in fixed assets under UK GAAP.

The impact arising from the change is summarised as follows:

	1 April 2009	31 March 2010
	£000	£000
Statement of financial position		
Property, plant and equipment	(23,852)	(25,125)
Intangible assets	23,852	25,125
Adjustment to retained earnings	-	-

(d) In accordance with IFRS 5, property, plant and equipment designated as available for sale have been recognised at the lower of cost and fair value less cost to sell. These assets were previously carried at cost.

At the date of transition, the fair value of the financial assets designated as available-for-sale property, plant and equipment is £86k and their carrying amount under previous GAAP was £71k.

The impact arising from the change is summarised as follows:

	1 April 2009	31 March 2010
	£000	£000
Statement of financial position		
Property, plant and equipment	(107)	(71)
Assets classified as held for sale	107	71
Adjustment to retained earnings	-	-

30 Explanation of transition to IFRSs (continued)

(e) Under previous GAAP transfers of assets from customers, and cash contributions from third parties, were recognised as capital contributions on the statement of financial position and netted off against the asset value. Under IFRSs, the transfers of assets from customers, and cash contributions from third parties, are recognised as revenue and additions to property, plant and equipment. As permitted by the transition provisions (IFRIC 18.22), the Company has opted to apply the approach above prospectively from 1 April 2007.

The impact arising from the change is summarised as follows:

	1 April 2009 £000	31 March 2010 £000
Statement of comprehensive income		
Revenue		25,117
Other income		(243)
Adjustment before income tax		24,874
Statement of financial position		
Property, plant and equipment	43,835	67,732
Deferred income - non-current	6,522	7,469
Deferred income - current	226	257
Related tax effect	(26,698)	(39,707)
Adjustment to retained earnings	23,885	35,751

(f) Under previous GAAP the Company expenses borrowing costs as incurred. At the date of transition, the Company elected to capitalise borrowing costs only in respect of qualifying assets for which commencement date for capitalisation was on or after the date of transition.

The impact arising from the change is summarised as follows:

	1 April 2009 £000	31 March 2010 £000
Statement of comprehensive income		
Finance costs		554
Adjustment before income tax		554
Statement of financial position		
Property, plant and equipment	-	554
Related tax effect	-	(289)
Adjustment to retained earnings	-	265

30 Explanation of transition to IFRSs (continued)

(g) Under previous GAAP, Kinnegar and Omega PPP contracts were classified as off balance sheet. Under IFRS IFRIC 12[65], 'Service concession agreements', those contracts were classified as on balance sheet and are therefore recognised in the statement of financial position of the Company.

Under previous GAAP an element of the unitary charges in relation to Kinnegar and Omega PPP transactions was capitalised each year, to account for the difference between the expected fair value of the assets residual on reversion and any agreed payment on reversion. The assets were not depreciated. The transaction is not required under IFRSs as the assets appear as finance leases on the statement of financial position.

The effects are to increase property, plant and equipment, loans and borrowings and the related depreciation charge and finance costs.

The impact arising from the change is summarised as follows:

	1 April 2009	31 March 2010
	£000	£000
Statement of comprehensive income		
Operating expenses - depreciation		(2,332)
Operating expenses		5,173
Finance costs		(5,863)
Adjustment before income tax		(3,022)
Statement of financial position		
Property, plant and equipment	59,891	130,943
Loans and borrowings - non-current	(61,602)	(133,403)
Loans and borrowings - current	(2,888)	(5,739)
Trade payables	2,888	2,888
Other payables - current	-	575
Related tax effect	902	2,484
Adjustment to retained earnings	(809)	(2,252)

(h) Under IAS 19 'Employee benefits', the Company must recognise a liability when an employee has provided service in exchange for benefits to be paid in the future. Therefore, an accrual for holidays untaken at the year end is required.

The impact arising from the change is summarised as follows:

	1 April 2009	31 March 2010
	£000	£000
Statement of comprehensive income		
Operating expenses		(8)
Adjustment before income tax		(8)
Statement of financial position		
Provisions – non-current	(697)	(705)
Related tax effect	368	372
Adjustment to retained earnings	(329)	(333)

[65] International Financial Reporting Interpretations Committee update 12.

30 Explanation of transition to IFRSs (continued)

(i) The above changes decreased / (increased) the deferred tax liability as follows based on a tax rate of 26%.

	Note	1 April 2009 £000	31 March 2010 £000
IAS 16 - Unwinding of renewals accounting	*b*	(22,380)	(33,309)
IFRIC 18 - Transfers of assets from customers and cash contributions	*e*	(26,698)	(39,707)
IAS 23 - Borrowing costs	*f*	-	(289)
IFRIC 12 - PPP finance leases	*g*	902	2,484
IAS 19 - Employee benefits	*h*	368	372
Decrease in retained earnings		(47,808)	(70,449)
Reclassification disclosing pension asset gross of deferred tax	*a*	(2,310)	(889)
Increase in deferred tax liabilities		(50,118)	(71,338)

(j) The above changes increased retained earnings as follows:

	Note	1 April 2009 £000	31 March 2010 £000
IAS 16 - Unwinding of renewals accounting	*b*	42,403	63,300
IFRIC 18 - Transfers of assets from customers and cash contributions	*e*	50,583	75,458
IAS 23 - Borrowing costs	*f*	-	554
IFRIC 12 - PPP finance leases	*g*	(1,711)	(4,736)
IAS 19 - Employee benefits	*h*	(697)	(705)
IAS 12 - Deferred tax	*i*	(47,808)	(70,449)
Increase in retained earnings		42,770	63,422

30 Explanation of transition to IFRSs (continued)

Restatement of cash flow statement from UK GAAP to IFRS

The transition from UK GAAP to IFRS has no effect upon the reported cash flows generated by the Company. The application of IFRS has changed the presentation of the cash flow statement which now classifies cash flows as arising under only three activities – operating, investing and financing.

Regulatory Accounts

Year ended 31 March 2011

Introduction

The Directors of NI Water are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of Northern Ireland Water Limited as a Water and Sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 and the Regulatory Accounting Guidelines.

Condition F6A of the Licence (Directors' certificate of going concern)

The Board confirms that to the best of its knowledge and belief:

(1) In the opinion of the Directors, Northern Ireland Water Limited ("the Appointee") will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil NI Water's obligations under the Appointment). This may be subject to any decisions that are reached by the NI Executive in relation to public expenditure;

(2) In the opinion of the Directors the Appointee will, for at least the next 12 months, have available to it:

(i) management resources; and

(ii) methods of planning and internal control which, except for any control weaknesses reported separately to the UR, are sufficient to enable it to carry out Regulated Activities necessary to fulfil its obligations under the Appointment; and

(3) In the opinion of the Directors, no contracts were entered into with any Associated Company.

For and on behalf of the Board

Trevor Haslett
Interim Chief Executive
6 July 2011

Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited

We have audited the Regulatory Accounts of Northern Ireland Water Limited ("the Company") set out on pages 133 to 157 which comprise:

• the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory accounts and historical cost regulatory accounts; and
• the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost reconciliation of movements in shareholder's funds, the current cost cash flow statement and the related notes to the current cost financial statements including the statement of accounting policies.

This report is made, on terms that have been agreed, solely to the Company and the Northern Ireland Authority for Utility Regulation ("NIAUR") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Department for Regional Development to Northern Ireland Water Limited as a Water and Sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the NIAUR those matters that we have agreed to state to them in our report, in order:
(a) to assist the Company to meet its obligation under the Company's Instrument of Appointment to procure such a report; and
(b) to facilitate the carrying out by the NIAUR of its regulatory functions, and for no other purpose.

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

Basis of preparation
The Regulatory Accounts have been prepared in accordance with Condition F of the Instrument of Appointment and the Regulatory Accounting Guidelines issued by the Water Services Regulation Authority 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 International Financial Reporting Standards (IFRSs) as adopted by the EU 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 Act 2006.

Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

Respective responsibilities of the NIAUR, the Directors and Auditors

The nature, form and content of Regulatory Accounts are determined by the NIAUR. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the NIAUR's purposes. Accordingly we make no assessment. The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the Statement of Directors' Responsibilities for regulatory information on page 128. Our responsibility is to audit the Regulatory Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland), except as stated in the "Basis of audit opinion", below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'. We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for the classification of expenditure), Regulatory Accounting Guideline 3.06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.03 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost accounting statements on pages 139 to 142 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.

Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

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 133 to 138 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 Act 2006 is given on page 136.

Emphasis of matter in respect of the basis of valuation of tangible fixed assets

The accounting policies to the Regulatory Accounts set out details in respect of the current cost basis of valuation of tangible fixed assets. We draw your attention to the fact that the valuation is not based on a Modern Equivalent Asset Value (MEAV) as required by the Regulatory Accounting Guidelines. Our opinion is not qualified in this regard.

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2011 fairly present, in accordance with Condition F of the Instrument of Appointment granted by the Department for Regional Development to Northern Ireland Water Limited as a Water and Sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006, the Regulatory Accounting Guidelines issued by the NIAUR and the accounting policies set out on pages 143 to 145, the state of the Company's affairs at 31 March 2011 on a historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

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 133 to 138 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 139 to 142 have been properly prepared in accordance with Regulatory Accounting Guidelines issued by the NIAUR.

KPMG

KPMG
Chartered Accountants, Belfast
6 July 2011

HISTORICAL COST FINANCIAL STATEMENTS

Profit and loss account for the year ended 31 March 2011

	Year to 31 March 2011			Year to 31 March 2010		
	Appointed business	**Non – Appointed business**	**Total**	Appointed business Restated	Non-Appointed business Restated	Total Restated[66]
	£000	**£000**	**£000**	£000	£000	£000
Turnover	**345,740**	**4,454**	**350,194**	347,569	4,723	352,292
Operating costs	**(212,535)**	**(2,998)**	**(215,533)**	(234,674)	(3,000)	(237,674)
Historical cost depreciation	**(41,689)**	**(16)**	**(41,705)**	(25,055)	(16)	(25,071)
Operating profit	**91,516**	**1,440**	**92,956**	87,840	1,707	89,547
Net interest receivable/(payable)	**(47,520)**	**11**	**(47,509)**	(37,716)	3	(37,713)
Profit on ordinary activities before taxation	**43,996**	**1,451**	**45,447**	50,124	1,710	51,834
Taxation on profit on ordinary activities:						
Deferred tax	**(31,433)**	**(281)**	**(31,714)**	(36,915)	(270)	(37,185)
Profit on ordinary activities after taxation	**12,563**	**1,170**	**13,733**	13,209	1,440	14,649
Dividends	**(35,570)**	**(458)**	**(36,028)**	(34,537)	(469)	(35,006)
Retained profit/(loss) for the financial year	**(23,007)**	**712**	**(22,295)**	(21,328)	971	(20,357)

[66] See note 13 of the Regulatory Accounts on page 157.

Balance sheet as at 31 March 2011

	At 31 March 2011			At 31 March 2010		
	Appointed business £000	**Non – Appointed business £000**	**Total £000**	Appointed business Restated £000	Non-Appointed business Restated £000	Total Restated[67] £000
Fixed assets						
Tangible assets	**1,713,802**	**129**	**1,713,931**	1,619,770	144	1,619,914
Investments	**106**	**-**	**106**	106	-	106
	1,713,908	**129**	**1,714,037**	1,619,876	144	1,620,020
Current assets						
Stocks	**1,863**	**6**	**1,869**	1,864	6	1,870
Debtors	**28,797**	**265**	**29,062**	40,885	663	41,548
Infrastructure renewals prepayment	**-**	**-**	**-**	1,452	-	1,452
Cash at bank and in hand	**11,728**	**4,108**	**15,836**	10,349	3,067	13,416
	42,388	**4,379**	**46,767**	54,550	3,736	58,286
Creditors: amounts falling due within one year						
Payments received on account	**(1,342)**	**-**	**(1,342)**	(1,677)	-	(1,677)
Trade creditors	**(9,498)**	**-**	**(9,498)**	(14,989)	-	(14,989)
Taxation and social security	**(1,120)**	**-**	**(1,120)**	(1,164)	-	(1,164)
Other creditors	**(6,121)**	**-**	**(6,121)**	(6,230)	-	(6,230)
Accruals and deferred income	**(91,936)**	**(234)**	**(92,170)**	(110,328)	(599)	(110,927)
Deferred grants and contributions	**(651)**	**-**	**(651)**	(605)	-	(605)
PPP finance lease	**(3,593)**	**-**	**(3,593)**	(2,313)	-	(2,313)
Infrastructure renewals accrual	**(3,044)**	**-**	**(3,044)**	-	-	-
	(117,305)	**(234)**	**(117,539)**	(137,306)	(599)	(137,905)
Net current (liabilities)/assets	**(74,917)**	**4,145**	**(70,772)**	(82,756)	3,137	(79,619)
Total assets less current liabilities	**1,638,991**	**4,274**	**1,643,265**	1,537,120	3,281	1,540,401
Creditors: amounts falling due after more than one year						
Loans and other borrowings	**(737,560)**	**-**	**(737,560)**	(627,560)	-	(627,560)
Other creditors	**(119,696)**	**-**	**(119,696)**	(121,262)	-	(121,262)
	(857,256)	**-**	**(857,256)**	(748,822)	-	(748,822)
Provisions for liabilities and charges						
Deferred tax provision	**(144,282)**	**(976)**	**(145,258)**	(113,163)	(695)	(113,858)
Other provisions	**(19,349)**	**-**	**(19,349)**	(32,884)	-	(32,884)
	(163,631)	**(976)**	**(164,607)**	(146,047)	(695)	(146,742)
Pension asset	**4,586**	**-**	**4,586**	2,286	-	2,286
Net Assets	**622,690**	**3,298**	**625,988**	644,537	2,586	647,123
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	**(49,000)**	**3,298**	**(45,702)**	(27,153)	2,586	(24,567)
Shareholder's funds	**622,690**	**3,298**	**625,988**	644,537	2,586	647,123

These financial statements were approved and authorised for issue by the Board of Directors on the 6 July 2011 and were signed on its behalf by:

Trevor Haslett

Trevor Haslett
Interim Chief Executive
6 July 2011

[67] See note 13 of the Regulatory Accounts on page 157.

Statement of total recognised gains and losses for the year ended 31 March 2011

	Year to 31 March 2011			Year to 31 March 2010		
	Appointed business	**Non – Appointed business**	**Total**	Appointed business	Non-Appointed business	Total
	£000	**£000**	**£000**	£000	£000	£000
Profit for the financial year	**12,563**	**1,170**	**13,733**	13,209	1,440	14,649
Actuarial gain recognised in the pension scheme	**1,568**	**-**	**1,568**	(12,855)	-	(12,855)
Deferred tax arising on gains in the pension scheme	**(408)**	**-**	**(408)**	3,600	-	3,600
Total recognised gains and losses relating to the financial year	**13,723**	**1,170**	**14,893**	3,954	1,440	5,394
Prior year adjustment (as explained in note 13)	**(70,450)**	**-**	**(70,450)**			
Total recognised gains and losses since last annual report	**(56,727)**	**1,170**	**(55,557)**			

Reconciliation between statutory accounts and historic cost regulatory accounts for the appointed and non-appointed business for the year ended 31 March 2011

The Company's statutory accounts are prepared under IFRS and this is reflected in its statutory accounts for the year ended 31 March 2011. However the regulatory accounts are prepared on the basis of regulatory accounting guidelines and UK GAAP. The principal differences between the Company's statutory accounts and its regulated accounts are set out below.

Profit and loss account / Statement of comprehensive income	**Year to 31 March 2011 £000**
a) Operating profit / Results from operating activities	
Per regulatory accounts	**92,956**
Difference in income under IFRIC 18	52,957
Difference in infrastructure accounting	16,760
Difference in depreciation - non infrastructure	(4,270)
Difference in amortisation of grants and contributions	(287)
Difference in treatment of PPP contracts	12,036
Difference in capitalisation of expenditure	(1,104)
Pension finance income shown in net finance costs under IFRS	(676)
Other IFRS/UK GAAP differences	24
Per statutory accounts	**168,396**
b) Net interest receivable/(payable) / Net finance costs	
Per regulatory accounts	**(47,509)**
Capitalised interest under IFRS	636
Notional lease interest on PPP assets reclassified under IFRS	(10,027)
Pension finance income shown in net finance costs under IFRS	676
Per statutory accounts	**(56,224)**
c) Deferred taxation/ Income tax expense	
Per regulatory accounts	**(31,714)**
Per statutory accounts	**(31,714)**

Reconciliation between statutory accounts and historic cost regulatory accounts for the appointed and non-appointed business for the year ended 31 March 2011 (continued)

Balance sheet / Statement of financial position	**At 31 March 2011 £000**
a) Fixed Assets / Property, plant and equipment	
Cost	
At 31 March per regulatory accounts	**1,950,058**
Reverse regulatory infrastructure (accrual) / prepayment	(3,044)
Intangible assets separately identified under IFRS	(31,265)
Assets identified as classified as held for sale	(175)
Difference in capitalisation of expenditure	(12,083)
Capitalised interest under IFRS	1,190
PPP assets treated 'on balance sheet' under IFRS	134,288
Capital contributions treated differently under IFRS	118,060
De-recognition of infrastructure assets	(9,449)
At 31 March per statutory accounts	**2,147,580**
Depreciation	
At 31 March per regulatory accounts	**236,127**
Intangible assets separately identified under IFRS	(11,308)
Difference in depreciation of infrastructure assets	(91,909)
Difference in depreciation of non-infrastructure assets	10,712
De-recognition of infrastructure assets	(9,449)
At 31 March per statutory accounts	**134,173**
b) Debtors due in less than one year / trade and other receivables	
At 31 March per regulatory accounts	**29,062**
Prepayments shown separately in IFRS statement	(9,889)
Capital maintenance prepayment for IFRS PPP reclassified assets	1,224
At 31 March per statutory accounts	**20,397**

Reconciliation between statutory accounts and historic cost regulatory accounts for the appointed and non-appointed business for the year ended 31 March 2011 (continued)

Balance sheet/ Statement of financial position	At 31 March 2011 £000
c) Provisions	
At 31 March per regulatory accounts	**19,349**
Holiday pay provision under IFRS	681
At 31 March per statutory accounts	20,030
Provisions classified as non-current liabilities	8,358
Provisions classified as current liabilities	11,672
At 31 March per statutory accounts	**20,030**
d) Loans and borrowings	
At 31 March per regulatory accounts	**737,560**
Finance leases for PPP assets (Omega and Kinnegar) reclassified under IFRS	132,662
Alpha PPP lease liability reclassified under IFRS from other creditors (amounts falling due after more than one year)	101,247
Alpha PPP lease liability reclassified under IFRS from PPP finance lease (amounts falling due within one year)	3,593
At 31 March per statutory accounts	**975,062**
Loans and borrowings classified as non-current liabilities	967,543
Loans and borrowings classified as current liabilities	7,519
At 31 March per statutory accounts	**975,062**

CURRENT COST FINANCIAL STATEMENTS

Profit and loss account for the appointed business for the year ended 31 March 2011

	Note	Year to 31 March 2011 £000	Year to 31 March 2010 Restated[68] £000
Turnover	*3*	**345,740**	347,569
Current cost operating costs	*4*	**(341,824)**	(328,924)
Current cost profit on disposal of fixed assets	*3*	**79**	5
Working capital adjustment	*3,8*	**4,898**	4,313
Current cost operating profit		**8,893**	22,963
Net interest payable		**(47,520)**	(37,716)
Financing adjustment	*8*	**40,427**	25,217
Current cost profit before taxation		**1,800**	10,464
Taxation on profit on ordinary activities:			
Deferred tax		**(31,433)**	(36,915)
Current cost loss attributable to Shareholder		**(29,633)**	(26,451)
Dividends		**(35,570)**	(34,537)
Current cost loss retained	*7*	**(65,203)**	(60,988)

[68] See note 13 of the Regulatory Accounts on page 157.

Balance Sheet for the appointed business at 31 March 2011

	Note	At 31 March 2011 £000		At 31 March 2010 Restated[69] £000	
Fixed assets					
Tangible assets	*5*	**7,825,616**		7,389,297	
Third party contributions		**(198,736)**		(141,802)	
			7,626,880		7,247,495
Working capital	*6*	**(79,116)**		(91,609)	
Cash	*9*	**(3,272)**		349	
Short term deposits	*9*	**15,000**		10,000	
Infrastructure renewals (accrual)/ prepayment		**(3,044)**		1,452	
			(70,432)		(79,808)
Non-operating assets and liabilities					
Non-trade debtors		**10**		1,491	
Non-trade creditors due within one year		**(3,844)**		(3,833)	
Investments		**106**		106	
Total non-operating liabilities			**(3,728)**		(2,236)
Creditors: amounts falling due after more than one year					
Borrowings		**(737,560)**		(627,560)	
Other creditors		**(102,624)**		(106,136)	
			(840,184)		(733,696)
Provisions for liabilities and charges					
Deferred tax provision		**(144,282)**		(113,163)	
Other provisions		**(19,349)**		(32,884)	
			(163,631)		(146,047)
Pension assets			**4,586**		2,286
Net assets			**6,553,491**		6,287,994
Capital and reserves					
Called up share capital			**500,000**		500,000
Distributable reserve			**171,690**		171,690
Profit and loss account	*7*		**(227,538)**		(163,495)
Current cost reserves	*8*		**6,109,339**		5,779,799
Shareholder's funds			**6,553,491**		6,287,994

These financial statements were approved and authorised for issue by the Board of Directors on 6 July 2011 and were signed on its behalf by:

Trevor Haslett
Interim Chief Executive
6 July 2011

[69] See note 13 of the Regulatory Accounts on page 157.

Reconciliation of movements in shareholder's funds for the year ended 31 March 2011

	Year to 31 March 2011	Year to 31 March 2010 Restated[70]
	£000	£000
Loss for the financial year	**(29,633)**	(26,451)
Dividends on shares classified in shareholder's funds	**(35,570)**	(34,537)
Retained loss	**(65,203)**	(60,988)
Other recognised gains / (losses) relating to the year (net)	**1,160**	(9,255)
Profit and loss account	**(64,043)**	(70,243)
Increase in current cost reserves	**329,540**	259,899
Net addition to shareholder's funds	**265,497**	189,656
Opening shareholder's funds (as previously stated)	**6,358,444**	6,146,146
Prior year adjustment (as explained in note 13)	**(70,450)**	(47,808)
Opening shareholder's funds (as restated)	**6,287,994**	6,098,338
Closing shareholder's funds	**6,553,491**	6,287,994

[70] See note 13 of the Regulatory Accounts on page 157.

Cash flow statement for the year ended 31 March 2011

	Year to 31 March 2011			Year to 31 March 2010		
	Appointed business £000	**Non – Appointed business £000**	**Total £000**	Appointed business £000	Non-Appointed business £000	Total £000
Net cash inflow from operating activities Note 11(a)	**151,177**	**1,488**	**152,665**	137,968	1,776	139,744
Returns on investments and servicing of finance						
Interest received	**212**	**11**	**223**	247	-	247
Interest paid	**(34,640)**	**-**	**(34,640)**	(26,905)	-	(26,905)
Interest element of finance lease	**(12,215)**	**-**	**(12,215)**	(11,325)	-	(11,325)
Net cash (outflow)/inflow from returns on investments and servicing of finance	**(46,643)**	**11**	**(46,632)**	(37,983)	-	(37,983)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	**(156,548)**	**-**	**(156,548)**	(213,359)	-	(213,359)
Grants and contributions received	**6,887**	**-**	**6,887**	6,514	-	6,514
Infrastructure renewals expenditure	**(24,897)**	**-**	**(24,897)**	(38,396)	-	(38,396)
Disposal of fixed assets	**251**	**-**	**251**	494	-	494
Net cash outflow from investing activities	**(174,307)**	**-**	**(174,307)**	(244,747)	-	(244,747)
Equity dividends paid to shareholders	**(35,570)**	**(458)**	**(36,028)**	(34,537)	(469)	(35,006)
Cash (outflow)/inflow before management of liquid resources and financing	**(105,343)**	**1,041**	**(104,302)**	(179,299)	1,307	(177,992)
Management of liquid resources	**(5,000)**	**-**	**(5,000)**	9,000	-	9,000
Cash (outflow)/inflow from management of liquid resources	**(5,000)**	**-**	**(5,000)**	9,000	-	9,000
Net cash flow before financing	**(110,343)**	**1,041**	**(109,302)**	(170,299)	1,307	(168,992)
Financing						
Loans advanced	**110,000**	**-**	**110,000**	170,000	-	170,000
Capital element of finance lease repayments	**(3,278)**	**-**	**(3,278)**	(2,906)	-	(2,906)
Net cash inflow from financing	**106,722**	**-**	**106,722**	167,094	-	167,094
Net (decrease)/increase in cash	**(3,621)**	**1,041**	**(2,580)**	(3,205)	1,307	(1,898)

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 10 to 32, for further understanding of the performance of the business.

The Directors' Report provides information on the dividend policy on page 33 and on "Disclosure of information to auditors" on page 36.

The Directors' Remuneration Report is set on pages 54 to 60 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 2011.

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 UR. These requirements mirror those issued by Ofwat, the economic regulator for the Water and Sewerage industry in England and Wales.

The regulatory accounts have been prepared in accordance with Condition F of the "Instrument of Appointment by the Department for Regional Development of Northern Ireland Water Limited as a Water and Sewerage undertaker" and the Ofwat Regulatory Accounting Guidelines (RAGS) adopted by the UR and modified where required for conditions prevalent in Northern Ireland, the accounting policies set out in these notes and, in the case of the regulatory historic cost accounts, under the historical cost convention.

The regulatory accounts have been prepared on a going concern basis notwithstanding the net current liabilities. The Directors are content to adopt this approach for the following reasons:

- A market for services for the provision of Water and Sewerage services will continue to exist and a licence is in place with the UR, that is underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, that designates Northern Ireland Water Limited as the sole Water and Sewerage undertaker for Northern Ireland;
- DRD provides substantial revenue funding to the business and will continue to do so until domestic charging is introduced;
- DRD also provides a capital loan facility to fund the capital expenditure for the business; and
- Cash flow projections indicate that the Company will be able to meet its liabilities as they fall due.

(b) General
The regulatory accounting policies are based on UK Generally Accepted Accounting Principles (UK GAAP). The statutory accounts are based on International Financial Reporting Standards (IFRS). A reconciliation between the statutory accounts and historic regulatory accounts for the appointed and unappointed business is included in the regulatory accounts (pages 136 to 138). The significant differences between the accounting policies adopted in the statutory accounts and those adopted for the regulatory accounts are summarised below:

(c) Tangible fixed assets and depreciation
The value of tangible fixed assets at 1 April 2007 included in the current cost accounts are based on the closing balances included in 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 the UR, 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. As agreed with the UR this was not carried out as part of PC10, but will be incorporated into work carried out within the next Price Control period.

Tangible fixed assets are restated to current value each year. From 2007/08, the Retail Price Index (RPI) has been used to reflect changes in the general level of inflation during the year. Assets in the course of construction are not indexed until they are brought into use.

The infrastructure renewals charge (IRC) is part of the renewals accounting approach permitted under UK GAAP but not permitted under IFRS. (IFRS requires depreciation of infrastructure assets in line with appropriate asset lives).

The IRC is defined as the annual accounting provision for expenditure on the renewal of infrastructure assets charged to the profit and loss account. It should reflect the Company's assessment of its medium to long term infrastructure renewals expenditure (IRE) needs.

The IRC for NI Water is based on the determination of the PC10. The UR determined that the IRC should be set equal to the anticipated IRE for each year of the three years contained within the business plan. The IRE forms part of the PC10 capital expenditure plan.

The IRE in the year ended 31 March 2011 is based on an analysis of capital expenditure on a project-by-project basis.

The capitalisation policy differs between the regulatory accounts and statutory accounts in relation to IRE. Some elements of IRE capitalised under UK GAAP are categorised as infrastructure repairs under IFRS and as such are expensed directly to profit under IFRS.

Infrastructure assets replaced are de-recognised under IFRS whereas the UK GAAP approach in the regulatory accounts does not derecognise these replaced assets.

(d) Grants and other third party contributions
Grants, infrastructure and third party contributions include government grants, infrastructure charges, connection charges, requisitioning of Water mains or sewers, sewer adoption fees and contributions from third parties. Grants and contributions for capital expenditure, other than infrastructure assets, are credited to a deferral account within creditors and are released to the profit and loss account evenly over the expected useful life of the relevant asset in accordance with the Companies Act 2006.

Grants, contributions and capital subsidy for capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with the Companies Act 2006 which requires grants and contributions to be shown as deferred income, but has been adopted in order to show a true and fair view, in the opinion of the Directors. 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.

Under IFRS all third party contributions are treated as income at the point of recognition and are credited to turnover. Grants are treated similarly in the statutory and regulatory accounts.

(e) Real financial capital maintenance adjustments
These adjustments are made to historical cost operating profit in order to arrive at profit after the maintenance of financial capital in real terms:

- working capital adjustment – this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock, less trade creditors; and
- financing adjustment – this is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all assets and liabilities in the balance sheet apart from those included in working capital and excluding fixed assets, deferred taxation provision, index linked debt and dividends payable.

(f) Apportionment of costs between the appointed and non-appointed business activities
The non-appointed business relates mainly to septic tank emptying, vehicle maintenance services carried out on behalf of primarily DRD Roads Service and income associated with aerial masts erected on Company property. A reasonable proportion of operating and other costs have been apportioned to these activities based on turnover and assumptions on the costs incurred. The results from the non-appointed activities are shown in the historical cost financial statements and regulatory cash flow statements.

(g) PPP contracts
The regulatory accounts under UK GAAP treat the Alpha project as ‘on balance sheet’ and the Omega and Kinnegar projects as ‘off balance sheet’. This is in line with UK GAAP and the assessment of where the risks and rewards of the contracts reside. Under this approach the assets associated with Alpha are capitalised and shown on NI Water’s balance sheet with a corresponding finance lease creditor established. The unitary charges for Alpha are apportioned to the profit and loss account (service charges and finance lease interest) and to the balance sheet (lease repayment and capital maintenance). Under this approach the Omega and Kinnegar assets are not deemed to be owned by NI Water and not shown on the balance sheet. The unitary charges for Omega and Kinnegar are apportioned to the profit and loss account (service charges) and to the balance sheet (residual interest asset). The residual interest asset recognises a build up of value on the balance sheet until the residual value of the assets revert to NI Water at the end of the contract period.

The statutory accounts under IFRS treat all three PPP projects as ‘on balance sheet’ and as such all associated assets are capitalised and corresponding finance leases are created.

(h) Provisions
An additional provision for holiday pay has been included in the statutory accounts as required under IFRS.

3 Analysis of current cost turnover and operating income for the appointed business

	Year to 31 March 2011			Year to 31 March 2010		
	Water services £000	**Sewerage services £000**	**Total £000**	Water services £000	Sewerage services £000	Total £000
Turnover						
Unmeasured – household	**118,368**	**128,232**	**246,600**	118,127	122,227	240,354
Unmeasured – non household	**2,495**	**2,721**	**5,216**	1,231	1,236	2,467
Total unmeasured	**120,863**	**130,953**	**251,816**	119,358	123,463	242,821
Measured – non household	**37,791**	**20,997**	**58,788**	44,301	29,241	73,542
Total measured	**37,791**	**20,997**	**58,788**	44,301	29,241	73,542
Trade effluent	**-**	**3,608**	**3,608**	-	4,669	4,669
Large user and special agreements	**5,927**	**4,180**	**10,107**	5,594	-	5,594
Total trade effluent and large user special agreements	**5,927**	**7,788**	**13,715**	5,594	4,669	10,263
Rechargeable works	**492**	**492**	**984**	330	330	660
Other third party services	**329**	**20,108**	**20,437**	379	19,904	20,283
Total third party services	**821**	**20,600**	**21,421**	709	20,234	20,943
Total turnover	**165,402**	**180,338**	**345,740**	169,962	177,607	347,569

	Year to 31 March 2011			Year to 31 March 2010		
	Water services £000	**Sewerage services £000**	**Total £000**	Water services £000	Sewerage services £000	Total £000
Operating income and working capital adjustment for the appointed business:						
Current cost profit/(loss) on disposal of fixed assets	**35**	**44**	**79**	120	(115)	5
Working capital adjustment	**4,898**	**-**	**4,898**	4,313	-	4,313

4a Analysis of operating costs and tangible fixed assets

Year to 31 March 2011

	Water Services			Sewerage Services				
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	**Total £000**
Direct costs								
Employment costs	3,714	11,184	14,898	3,639	5,483	696	9,818	**24,716**
Power	12,107	4,053	16,160	4,817	9,692	3,227	17,736	**33,896**
Hired and contracted services	2,528	7,659	10,187	7,185	730	2,179	10,094	**20,281**
Materials and consumables	3,666	769	4,435	151	703	254	1,108	**5,543**
Other direct costs	4	16	20	17	4	1	22	**42**
Total direct costs	**22,019**	**23,681**	**45,700**	**15,809**	**16,612**	**6,357**	**38,778**	**84,478**
General & support expenditure	12,563	13,607	26,170	8,629	9,037	3,513	21,179	**47,349**
Total functional expenditure	**34,582**	**37,288**	**71,870**	**24,438**	**25,649**	**9,870**	**59,957**	**131,827**
Business activities								
Customer services			3,619				3,048	**6,667**
Scientific services			1,555				1,309	**2,864**
Cost of regulation			1,396				1,176	**2,572**
Rates			6,603				5,172	**11,775**
Doubtful debts			1,955				907	**2,862**
Total operating expenditure less third party services			**86,998**				**71,569**	**158,567**
Services for third parties			150				-	**150**
Total PPP unitary charge			1,795				23,372	**25,167**
Total operating expenditure			**88,943**				**94,941**	**183,884**
Capital costs								
Infrastructure renewals charge			19,017				10,376	**29,393**
Current cost depreciation:								
service activities	23,569	21,384	44,953	2,292	80,802	3,845	86,939	**131,892**
business activities			91				164	**255**
Amortisation of grants			(1,464)				(2,136)	**(3,600)**
Total capital costs			**62,597**				**95,343**	**157,940**
Total operating costs			**151,540**				**190,284**	**341,824**
Analysis of tangible fixed assets – MEAV[71]								
Service activities	808,400	2,960,955	3,769,355	2,881,945	1,132,104	38,780	4,052,829	**7,822,184**
Business activities			1,771				1,661	**3,432**
Total			**3,771,126**				**4,054,490**	**7,825,616**

[71] Asset values shown above are based on the valuation method described in note 2(c) to the regulatory accounts.

4b Analysis of operating costs and tangible fixed assets

Year to 31 March 2010

	Water Services			Sewerage Services				
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	**Total £000**
Direct costs								
Employment costs	3,234	10,480	13,714	3,496	3,975	1,904	9,375	**23,089**
Power	12,445	4,764	17,209	5,567	10,658	3,499	19,724	**36,933**
Hired and contracted services	1,991	5,410	7,401	7,392	1,743	9,965	19,100	**26,501**
Materials and consumables	3,810	1,000	4,810	254	681	1,258	2,193	**7,003**
Other direct costs	444	(134)	310	427	572	308	1,307	**1,617**
Total direct costs	**21,924**	**21,520**	**43,444**	**17,136**	**17,629**	**16,934**	**51,699**	**95,143**
General & support expenditure	8,029	11,282	19,311	9,535	11,512	6,217	27,264	**46,575**
Total functional expenditure	**29,953**	**32,802**	**62,755**	**26,671**	**29,141**	**23,151**	**78,963**	**141,718**
Business activities								
Customer services			8,197				10,361	**18,558**
Scientific services			1,332				1,681	**3,013**
Cost of regulation			1,233				1,558	**2,791**
Rates			6,937				7,507	**14,444**
Doubtful debts			648				463	**1,111**
Total operating expenditure less third party services			**81,102**				**100,533**	**181,635**
Services for third parties			204				8	**212**
Total PPP unitary charge			1,402				15,242	**16,644**
Total operating expenditure			**82,708**				**115,783**	**198,491**
Capital costs								
Infrastructure renewals charge			27,171				9,864	**37,035**
Current cost depreciation: service activities	24,603	21,414	46,017	1,541	45,911	2,357	49,809	**95,826**
business activities			94				282	**376**
Amortisation of grants			(1,137)				(1,667)	**(2,804)**
Total capital costs			**72,145**				**58,288**	**130,433**
Total operating costs			**154,853**				**174,071**	**328,924**
Analysis of tangible fixed assets – MEAV[72]								
Service activities	775,114	2,807,519	3,582,633	2,676,489	1,087,910	39,275	3,803,674	**7,386,307**
Business activities			1,125				1,865	**2,990**
Total			**3,583,758**				**3,805,539**	**7,389,297**

[72] Asset values shown above are based on the valuation method described in note 2(c) to the regulatory accounts.

4b Analysis of operating costs and tangible fixed assets (continued)

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

All costs relating to business activities e.g. customers services, scientific services and other, were collated using the relevant cost centre from the General Ledger. The total expenditure attributable to these activities was apportioned to Water and Sewerage on the basis of the directly coded expenditure.

Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for the year ended 31 March 2011 in respect of infrastructure assets amounted to £10.1m (2010 £8.2m) on Water services and £5.3m (2010 £5.5m) for Sewerage services.

5 Current cost analysis of tangible fixed assets by assets type

Water Services	Specialised Operational Assets £000	Non - Specialised Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross replacement cost					
At 1 April 2010	849,409	7,993	2,808,959	28,117	**3,694,478**
RPI and other adjustments	25,817	433	154,632	1,177	**182,059**
Disposals	(12)	-	-	(304)	**(316)**
Additions	25,149	-	29,370	497	**55,016**
At 31 March 2011	**900,363**	**8,426**	**2,992,961**	**29,487**	**3,931,237**
Depreciation					
At 1 April 2010	(100,991)	(444)	-	(9,285)	**(110,720)**
RPI and other adjustments	(3,882)	(30)	-	(640)	**(4,552)**
Disposals	12	-	-	193	**205**
Charge for year	(40,396)	(762)	-	(3,886)	**(45,044)**
At 31 March 2011	**(145,257)**	**(1,236)**	**-**	**(13,618)**	**(160,111)**
Net book value at 31 March 2011	**755,106**	**7,190**	**2,992,961**	**15,869**	**3,771,126**
Net book value at 1 April 2010	748,418	7,549	2,808,959	18,832	3,583,758

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 2010	1,169,591	10,320	2,718,599	38,804	**3,937,314**
RPI and other adjustments	50,033	561	161,060	1,876	**213,530**
Disposals	(573)	-	-	(187)	**(760)**
Additions	65,808	-	64,997	370	**131,175**
At 31 March 2011	**1,284,859**	**10,881**	**2,944,656**	**40,863**	**4,281,259**
Depreciation					
At 1 April 2010	(120,874)	(611)	-	(10,290)	**(131,775)**
RPI and other adjustments	(7,992)	(41)	-	(557)	**(8,590)**
Disposals	561	-	-	138	**699**
Charge for year	(72,332)	(1,085)	-	(13,686)	**(87,103)**
At 31 March 2011	**(200,637)**	**(1,737)**	**-**	**(24,395)**	**(226,769)**
Net book value at 31 March 2011	**1,084,222**	**9,144**	**2,944,656**	**16,468**	**4,054,490**
Net book value at 1 April 2010	1,048,717	9,709	2,718,599	28,514	3,805,539

5 Current cost analysis of tangible fixed assets by assets type (continued)

Total Services	Specialised Operational Assets £000	Non - Specialised Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross replacement cost					
At 1 April 2010	2,019,000	18,313	5,527,558	66,921	**7,631,792**
RPI and other adjustments	75,850	994	315,692	3,053	**395,589**
Disposals	(585)	-	-	(491)	**(1,076)**
Additions	90,957	-	94,367	867	**186,191**
At 31 March 2011	**2,185,222**	**19,307**	**5,937,617**	**70,350**	**8,212,496**
Depreciation					
At 1 April 2010	(221,865)	(1,055)	-	(19,575)	**(242,495)**
RPI and other adjustments	(11,874)	(71)	-	(1,197)	**(13,142)**
Disposals	573	-	-	331	**904**
Charge for year	(112,728)	(1,847)	-	(17,572)	**(132,147)**
At 31 March 2011	**(345,894)**	**(2,973)**	**-**	**(38,013)**	**(386,880)**
Net book value at 31 March 2011	**1,839,328**	**16,334**	**5,937,617**	**32,337**	**7,825,616**
Net book value at 1 April 2010	1,797,135	17,258	5,527,558	47,346	7,389,297

5 Current cost analysis of tangible fixed assets by assets type (continued)

In the preparation of its statutory accounts, the Company has adopted IFRS.

The regulatory accounts are prepared under UK GAAP except in relation to infrastructure renewals accounting as required by FRS 15 'Tangible Fixed Assets'. For the regulatory accounts FRS 15 is not applied for infrastructure renewals accounting.

A reconciliation of the tangible fixed assets shown in the regulatory accounts to those shown in the statutory accounts is set out below:

	Infrastructure Assets £000
Cost	
At 31 March 2011 per regulatory accounts	**5,937,617**
Adjustment to opening balance at 1 April 2010[73]	(4,673,620)
Less capital contributions	(118,060)
Infrastructure renewals expenditure capitalised in the year	24,897
IFRS adjustments:	
Difference in treatment of capitalisation of expenditure	(12,083)
Capitalised interest	374
Difference in treatment of PPP assets	11,225
De-recognition of assets	(9,450)
At 31 March 2011 per statutory accounts	**1,160,900**
Depreciation	
At 31 March 2011 per regulatory accounts	**-**
Depreciation charge for infrastructure expenditure	(36,769)
At 31 March 2011 per statutory accounts	**(36,769)**
Net book value	
At 31 March 2011 per regulatory accounts	**5,937,617**
Adjustment to opening balance at 1 April 2010	(4,673,620)
Less capital contributions	(118,060)
Infrastructure renewals expenditure capitalised in the year	24,897
Depreciation charge for infrastructure expenditure	(36,769)
IFRS adjustments	(9,934)
At 31 March 2011 per statutory accounts	**1,124,131**
Infrastructure renewals accrual	
At 31 March 2011 per regulatory accounts	**3,044**
Less infrastructure renewals accrual	(3,044)
At 31 March 2011 per statutory accounts	**-**

[73] This adjustment includes the impact of reporting the additions to infrastructure assets in 'Assets in course of construction' within the statutory accounts.

6 Working capital (current cost)

	At 31 March 2011 £000	At 31 March 2010 £000
Stocks	**1,863**	1,865
Trade debtors		
– measured non-household	**10,908**	13,587
– unmeasured non-household	**-**	296
Other trade debtors	**1,021**	2,907
Measured income accrual	**8,761**	16,197
Prepayments and other debtors	**8,097**	6,407
Trade creditors	**(9,498)**	(14,989)
Deferred income – customer advance receipts	**(1,342)**	(1,677)
Capital creditors	**(52,697)**	(72,643)
Accruals and other creditors	**(46,229)**	(43,559)
	(79,116)	(91,609)

7 Profit and loss reserve

	At 31 March 2011 £000	At 31 March 2010 Restated £000
At 1 April (as originally stated)	**(93,045)**	(45,444)
Prior year adjustment	**(70,450)**	(47,808)
At 1 April (as restated)	**(163,495)**	(93,252)
Retained current loss for year	**(65,203)**	(60,988)
FRS 17 actuarial gain / (loss)	**1,568**	(12,855)
Deferred tax on actuarial gain / (loss)	**(408)**	3,600
At 31 March	**(227,538)**	(163,495)

8 Movement on current cost reserve

	At 31 March 2011 £000	At 31 March 2010 £000
At 1 April	**5,779,799**	5,519,900
RPI adjustments:		
Fixed assets	**382,526**	294,257
Grants and third party contributions	**(7,582)**	(5,089)
Current cost loss on disposal of fixed assets	**(79)**	261
Working capital	**(4,898)**	(4,313)
Financing	**(40,427)**	(25,217)
At 31 March	**6,109,339**	5,779,799

9 Net debt analysis

Included within creditors falling due within one year is net debt as follows:	**Fixed rate Year to 31 March 2011 £000**	**Total Year to 31 March 2011 £000**	Fixed rate Year to 31 March 2010 £000	Total Year to 31 March 2010 £000
Maturity Profile				
Less than one year	**(3,593)**	**(3,593)**	(2,313)	(2,313)
Between one and two years	**(2,532)**	**(2,532)**	(6,235)	(6,235)
Between two and five years	**(10,128)**	**(10,128)**	(9,427)	(9,427)
Between five and twenty years	**(825,174)**	**(825,174)**	(714,561)	(714,561)
More than twenty years	**(973)**	**(973)**	(3,142)	(3,142)
Total borrowings	**(842,400)**	**(842,400)**	(735,678)	(735,678)
Cash	**(3,272)**	**(3,272)**	349	349
Short term deposits	**15,000**	**15,000**	10,000	10,000
Net debt at 31 March	**(830,672)**	**(830,672)**	(725,329)	(725,329)

10 Reconciliation of historical cost (loss) / profit to current cost loss

	Year to 31 March 2011 £000	Year to 31 March 2010 Restated £000
Historical cost operating (loss) / profit per regulatory accounts (as originally stated)	**(22,295)**	2,285
Prior year adjustment	-	(22,642)
Historical cost operating (loss) per regulatory accounts (as restated)	**(22,295)**	(20,357)
Less non-appointed activities	**(712)**	(971)
Sub total historical cost loss	**(23,007)**	(21,328)
Less difference in profit on disposals	**(29)**	(258)
Working capital adjustment	**4,898**	4,313
Financing adjustment	**40,427**	25,217
Add back historical cost depreciation including infrastructure renewals charge	**71,082**	62,091
Less current cost depreciation	**(132,147)**	(96,202)
Less infrastructure renewals charge	**(29,393)**	(37,035)
Add back historical cost amortisation of grant reserve	**(634)**	(590)
Less current cost amortisation of grant reserve	**3,600**	2,804
Current cost operating loss	**(65,203)**	(60,988)

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

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Current cost operating profit	**8,893**	22,963
Working capital adjustment	**(4,898)**	(4,313)
Movement in working capital	**7,453**	(13,701)
Current cost depreciation	**132,147**	96,202
Current cost profit on sale of fixed assets	**(79)**	(5)
Infrastructure renewals charge	**29,393**	37,035
Other non-cash items		
Amortisation of deferred grants and contributions	**(3,600)**	(2,804)
PPP residual asset credits	**(3,143)**	(2,164)
Excess of pension payments over FRS17 charge	**(778)**	(7,491)
Pension finance credit included in operating costs	**(676)**	-
Movement in provisions and creditors > 1 year	**(13,535)**	12,246
Net cash inflow from operating activities	**151,177**	137,968

11b Analysis of net debt

	1 April 2010 £000	**Cash flows £000**	**Non cash changes £000**	**31 March 2011 £000**
Cash at bank and in hand	349	(3,621)	-	(3,272)
Deposits and investments	10,000	5,000	-	15,000
	10,349	1,379	-	11,728
Debt due within one year	(2,313)	-	(1,280)	(3,593)
Debt due after one (including PPP liability)	(733,365)	(106,722)	1,280	(838,807)
Total	**(725,329)**	**(105,343)**	**-**	**(830,672)**

12 Regulatory capital value ("RCV")

	At 31 March 2011 £000	At 31 March 2010 £000
Revised opening balance at 1 April	**1,493,018**	1,247,833
Capital expenditure[74]	**131,100**	215,978
Infrastructure renewals expenditure	**24,897**	38,396
Infrastructure renewals charge	**(29,393)**	(37,035)
Grants and contributions	**(1,122)**	(1,221)
Depreciation[75] (adjusted for application of broad equivalence)	**(36,156)**	(42,407)
Closing RCV at 31 March	**1,582,344**	1,421,544
Average RCV	**1,537,681**	1,334,689
Opening RCV		
At 1 April - as originally stated	**1,421,544**	1,194,686
adjust for all years prior to 2010/11 to exclude PPP residual interest capital additions (including associated indexation)[76]	**(4,301)**	-
Revised opening balance at 1 April	**1,417,243**	1,194,686
Indexation adjustment	**75,775**	53,147
Opening RCV	**1,493,018**	1,247,833

The table above shows the RCV used in setting the revenue caps for the period 1 April 2010 to 31 March 2013. 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.

[74] In line with the assumptions used for the RCV calculation within the Final Determination capital expenditure associated with the PPP projects is excluded from the RCV calculation. In the year ending 31 March 2011 this amounted to £3.143m for Omega and Kinnegar and £0.113m for Alpha. An adjustment has also been included in the current year to adjust for the additions to Omega and Kinnegar that had previously been included in the RCV calculation.

[75] Depreciation has been calculated on a broad equivalence basis and as such is different to the depreciation balance disclosed in note 4.

[76] In line with the assumptions used for the RCV calculation within the Final Determination capital expenditure associated with the PPP projects is excluded from the RCV calculation. In the year ending 31 March 2011 this amounted to £3.143m for Omega and Kinnegar and £0.113m for Alpha. An adjustment has also been included in the current year to adjust for the additions to Omega and Kinnegar that had previously been included in the RCV calculation.

13. Prior year adjustment

A prior year adjustment has been recognised in the current year in relation to the change in policy for accounting for deferred tax.

As noted earlier on page 143 the Company's statutory accounts are prepared under IFRS and the regulatory accounts are prepared on the basis of UK GAAP and regulatory accounting guidelines.

However as the corporation tax computation for the Company will be based on the IFRS statutory accounts it has been agreed with the UR that the tax charge and provision in the regulatory accounts should be the same as those shown in the statutory accounts.

As a result a prior year adjustment has been recognised in the regulatory accounts.

The effect of the adjustment was an increase in the deferred tax charge and a decrease in the reported profit for the year ended 31 March 2010 of £22,642k.

	As previously stated	**Effect**	**As restated**
	£000	£000	£000
Deferred tax provision	(43,408)	(70,450)	(113,858)
Opening reserves	52,853	(47,808)	5,045
Total recognised gains and losses for the year	(6,970)	(22,642)	(29,612)
	45,883	(70,450)	(24,567)

Appendix A – Key Performance Indicators

This appendix outlines the Key Performance Indicators (KPIs) for NI Water. This includes actual performance for 2009/10 and 2010/11 along with the performance targeted for 2011/12[77].

Refer to the main body of the report above for explanations of underperformance or the construction status of the relevant KPIs.

	KPI	Target 2009/10	Actual 2009/10	Target 2010/11	Actual 2010/11	Comments on 2010/11 performance	Target 2011/12
	Customers						
1	Supply interruptions (DG3) - number of properties experiencing unplanned and un-warned interruptions in excess of (expressed as a percentage of households):						
	6 hours	1.000	1.299	1.000	59.060	Adversely affected by severe winter weather conditions in December 2010. The actual performance for 2010/11 excluding the effects of the 21st December 2010 – 6th January 2011 freeze/thaw is as follows: 6 hours: 1.83% 12 hours: 0.51% 24 hours: 0.23% The actual performance for 2010/11 excluding the effects of the 8th – 12th December 2010 freeze/thaw and the 21st December 2010 – 6th January 2011 freeze/thaw is as follows: 6 hours: 1.54% 12 hours: 0.50% 24 hours: 0.23% Other events that contributed to target failure in 2010/11 include a burst main in Kilkeel in early February, a burst main in Crumlin in late January, heavy snow and resultant power failures at the start of April and a higher than average rainfall and resultant ground movement in July.	0.969
	12 hours	0.150	0.494	0.222	26.570		0.211
	24 hours	0.010	0.287	0.010	5.079		0.010

[77] Targets 21 to 25 are measured on a calendar year basis (1 January to 31 December). The remaining targets are measured on a financial year basis (1 April to 31 March).

	KPI	Target 2009/10	Actual 2009/10	Target 2010/11	Actual 2010/11	Comments on 2010/11 performance	Target 2011/12
2	Response to billing contacts (DG6) - number of billing contacts dealt with within 5 working days expressed as a percentage of total billing contacts (%)	98.00	99.86	99.90	98.87	DG6 missed its 99.9% target due to the reallocation of resources during the severe winter weather conditions in December 2010.	99.90
3	Response to written complaints (DG7) - number of written complaints answered within 10 days as a percentage of total written complaints (%)	98.00	98.06	98.50	99.98		98.50
4	Billing of Metered Customers (DG8) – percentage of metered customers receiving bills with metered accounts, who during the year received at least one bill based on a customer or Company meter reading (%)	95.00	92.26	95.00	96.11		97.50
5	Ease of telephone contact (DG9 – old)- customer calls answered during business hours (8am to 8pm Monday to Friday, 8am to 6pm Saturday and 10am to 6pm Sunday) within 30 seconds (%)	98.00	96.68			n/a see new DG9 target below.	
6	Telephone contact (DG9 – new)						
	% of calls not abandoned	99.80	97.42	99.00	88.19	Adversely affected by severe winter weather conditions in December 2010. Recommendations for improvement are being implemented to mitigate impact of similar events in the future.	99.00
	% of calls not all lines busy	100.00	100.00	99.90	32.77		99.90
	Customer satisfaction score (out of five)	4.60	4.60	4.65	4.59		4.70
7	Inadequate Pressure (DG2) - number of properties removed from the 'at risk' register due to company action	#	#	220	283		237
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.	#	#	3	4	During April to March 686 instances of internal flooding were reported. Following analysis of these 4 properties have been categorised as having experienced internal sewage flooding as a result of overload (with a further 8 subject to DG5 Panel consideration). During 2010/11, we adopted a much more robust process for determining properties affected by internal flooding due to hydraulic incapacity. This new process has inevitably resulted in an increase in the number of properties affected during the period.	3

	KPI	Target 2009/10	Actual 2009/10	Target 2010/11	Actual 2010/11	Comments on 2010/11 performance	Target 2011/12
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')	#	#	23	28	28 properties have been categorised as having experienced internal sewage flooding as a result of equipment failure or blockages. During 2010/11, we adopted a much more robust process for determining properties affected by internal flooding due to FOC (Flooding Other Causes) which has resulted in increased numbers. We have proactive maintenance programmes in place to ensure as far as possible its sewer network operates to its optimum and as designed, however it should be noted that the vast majority of FOC are caused by blockages on our sewer network. Unfortunately a large percentage of these blockages are caused by inappropriate materials being put down the sewer network, something over which we have little control. We are becoming more proactive in making our customers aware of the implications of putting inappropriate materials into the sewer network using various media campaigns and leaflet drops in areas where we have known problems. It is hoped that this will help to reduce the number of FOC incidents moving forward.	23
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.	#	#	#	#	The capital investment targeted at flooding is dictated by the DG5 register. NI Water completed the development of full reporting capability for internal flooding incidents in April 2011 and is working towards full external and internal flood reporting capability by April 2013.	#
11	Leakage - reduction in overall leakage (million litres per day)	176.9	186.9	175.0	177.0	The 12 month leakage figure for year end is 177 Ml/day against a target of 175 Ml/day. This figure is influenced by the effects of the severe winter weather conditions in December 2010.	171.00

	KPI	Target 2009/10	Actual 2009/10	Target 2010/11	Actual 2010/11	Comments on 2010/11 performance	Target 2011/12
	Cash[78]						
12	Operating margin - excluding exceptionals (%)	26.0	25.5	27.4	24.5	Reduction in operating margin primarily due to lower level of income due in part to lower levels of consumption. Offset in part by improved control of operating costs.	30.68
13	Comparative Operating Cost Efficiency (figures for 2009/10 expressed in £m from a 2003/04 base)	53.8	~	~	~	Targets marked as on track for achievement on the basis that efficiencies have been applied to the operational cost and capital cost budgets.	~
14	Comparative Capital Efficiency – expressed as a percentage of total capital expenditure (%)	17	~	~	~		~
15	Billing						
	(a) percentage of measured bills issued within 5 working days of a meter reading excluding any exception readings that require investigation (%)	#	#	95	92.33	The Freeze/Thaw impacted on our ability to locate and read meters due to the severe weather conditions and diversion of staff to support the incident response teams. We have been developing our reporting during 2010/11 to improve data quality. We are also working to support faster upload of meter read data to our billing systems.	98
	(b) percentage of measured bills issued within 5 working days of a meter including exception readings needing investigation(%)	#	#	95	90.94		95
16	Days sales outstanding - Average number of days' sales outstanding						
	a) Measured (Days sales outstanding)	76	132	91	80	Targets to be replaced by consolidated debtor days target in 2011/12.	N/a
	b) Unmeasured (Debtor Days)	58	73	76	77	Unmeasured debt at 31 March 2011 is less than 1% of total debt outstanding.	N/a
	People						
17	Health and safety –number of 'absence related' accidents	12	11	10	4		9
18	Manpower numbers - number of posts	1,382	1,369	1,289	1,289		1,199
19	Employee attendance - %	95.7	95.8	96.5	96.6	The 2010 figure has been restated to include the annual attendance record of leavers in the year.	96.5

[78] UK GAAP based.

	KPI	Target 2009/10	Actual 2009/10	Target 2010/11	Actual 2010/11	Comments on 2010/11 performance	Target 2011/12
20	Employee engagement - (2009/10 - score out of 5, 2010/11 – response rate (%))	3.66	#	65	61	A corporate action plan has been completed and a number of employee focus workshops have been held with a view to developing directorate action plans.	65
	KPI	**12 months ended 31 December 2009***		**12 months ended 31 December 2010***		**Comments on 2010 performance**	**12 months ended 31/12/11***
		Target	**Actual**	**Target**	**Actual**		**Target**
	Compliance						
21	Mean zonal compliance - Water quality at the tap (%)	99.65	99.74	99.70	99.81		99.70
22	Operational Performance Indicator (Turbidity, Iron, Manganese) - %	99.10	98.90	99.10	99.08	The OPI TIM[79] Water quality performance measure is below the target. The ongoing Mains Rehabilitation Programme remains the key to reduction in iron and turbidity exceedances, which arise because of the condition of the distribution system. In the interim, we continue to prioritise operational activity, principally mains flushing, to reduce the incidents of OPI TIM failures.	99.10

[79] Operational Performance Indicator for turbidity, iron and manganese.

	KPI	12 months ended 31 December 2009*		12 months ended 31 December 2010*		Comments on 2010 performance	12 months ended 31/12/11*
		Target	Actual	Target	Actual		Target
23	Waste Water quality – Waste Water treatment works serving greater than 250 population equivalent achieving compliance with Water Order Consents expressed as a						
	(a) percentage of works (%)	87.0	88.0	85.0	88.6		87.7
	(b) percentage of population equivalent (%)	93.5	91.4	94.8	95.9		96.0
24	Waste Water Treatment Works passing UWWTW numeric consents (infraction risk) %	93.0	93.0	89.90	93.7		92.4
25	Pollution incidents (high/medium) - number of pollution incidents attributed to NI Water	56	55	54	46		51
	KPI	**Target 2009/10**	**Actual 2009/10**	**Target 2010/11**	**Actual 2010/11**	**Comments on 2010/11 performance**	**Target 2011/12**
26	Capital Works Programme - complete 90% of schemes costing over £250k, scheduled to start in the Capital Works Programme	90.00	96.39	90.00	93.44		90.00

Key:

Achieved
Failed
Under Construction

* Targets 21 to 25 are measured on a calendar year basis (1 January to 31 December). The remaining targets are measured on a financial year basis (1 April to 31 March).
# Target not measured / no target.
~ Targets based on efficiencies built into the operational and capital cost budgets.

Appendix B – Explanation of Key Performance Indicators

Target 1 – Supply interruptions (DG3)

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

Parameters of target
Defined as, the percentage of overall properties connected to the Water distribution system that is affected by unplanned interruptions in Water supply lasting greater than 6 hours, 12 hours and 24 hours. Unplanned interruptions exclude interruptions caused by third parties and overruns of planned interruptions.

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

Target 2 – Response to Billing Contacts (DG6)

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

Parameters of target
The term billing contact refers to any communication; written, telephone or direct contact with customers or their representative about billing issues. These include:

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

Measurement of target
Calculated as the number of billing contacts answered within 5 working days as a percentage of total billing contacts closed in the year to date. Day of receipt of the contact is treated as day zero and the next working day as day one.

This differs from our regulatory reporting methodology for AIR, which is reported as number of contacts closed within 5 working days, expressed as a percentage over total contacts received.

Sources, assumptions and limitations

Telephone customer contact activities are managed through the NI Water Customer Relations Centre with written customer contact activities managed by NI Water Account Services. Both areas are then validated and reported on by the Customer Services Delivery 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 (DG7)

Purpose

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

Parameters of target

A written complaint is any written letter, fax or e-mail expressing a dissatisfaction, however mildly worded, that draws attention to an action or inaction of NI Water, or a service provided by NI Water, agent or contractor, that has fallen short of the correspondent's expectations.

Measurement of target

Calculated as the number of written complaints answered within 10 working days, as a percentage of total complaints closed. The day of receipt of the contact is treated as day zero and the next working day as day one. Written customer contact activities are managed by NI Water Account Services, then validated and reported on by the Customer Services Delivery Directorate.

This differs from our regulatory reporting methodology for AIR, which is reported as number of contacts closed within 10 working days, expressed as a percentage over total contacts received.

Sources, assumptions and limitations

Implementation of a Customer Service Improvement Programme, linked to Business Improvement, has consolidated the new Customer Relations Centre systems and streamlined the interfaces with operational service delivery. Through this programme, NI Water is improving the service provided in response to queries and resolving customer issues. In all cases the aim is to give a prompt, courteous and professional response.

Target 4 – Billing of Metered Customers (DG8)

Purpose

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

Parameters of target

This measure is concerned with monitoring the service customers receive during the course of the reporting year. By issuing the customer with a bill based on actual meter read, NI Water can prevent customer dissatisfaction due to inaccuracy.

Measurement of target

The KPI is calculated by subtracting all excluded meters from the total meter stock to get the total measured meters against those meters that have actually been read during the year by either the customer or the Company.

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
- Test meters.

Target 5 – Telephone Contact (replaced by target 6)

Target 6 – Telephone Contact (DG9)

Purpose

The aim of this indicator is to identify the ease with which customers can make telephone contact with NI Water via the Principal Advertised Customer Contact (PACC) Points during office hours and their satisfaction with the way the Company handles their telephone call.

Parameters of target

UR Guidance for AIR reporting requires that the DG9 target is split to cover 'all lines busy', 'calls abandoned' and 'call handling satisfaction'. The 'all lines busy' category measures the degree of difficulty customers experience in being able to connect with a company agent. The 'calls abandoned' category is to capture the total number of callers who abandon their call before it is substantively answered by the Company.

Measurement of target

To measure the total calls received to customer contact lines (PACC), all lines busy (calls that receive engaged tones or are advised that NI Water is unable to take their call) and total calls abandoned (calls received which are abandoned before it is substantively answered by NI Water). Total call handling satisfaction is measured by means of a survey conducted by a third party provider. The total number of telephone complaints are also recorded.

Sources, assumptions and limitations

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

- Calls from contractors and suppliers, or calls made by a contractor's field operatives to contractor's offices;
- 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. However, in January 2011 during the Freeze/Thaw a third party provider was used to take an overflow of calls from customers. The UR Guidance requires us to include the volume of calls received by this third party in our DG9 figures; and
- Calls to the direct lines of named individuals or specialist sections, except where the specialist section (such as Debt Recovery) specifically prints its Direct Dial numbers on NI Water's letterhead.

Target 7 – Inadequate pressure

Purpose
The purpose of this KPI is to measure the number of properties which have received or continue to receive pressure and flow below the reference level and have been entered in the DG2 Register.

Parameters of target
The target refers to a reduction in the number of properties experiencing pressure and flow below the required standard of service due to Company action. Properties can be removed from the DG2 (low pressure) Register when they consistently receive pressure and flow above the reference level.

Measurement of target
Properties are assessed against a reference level of 10 metres head and a flow of 9 litres per minute measured at the customer's main stop tap. To facilitate measurement, a surrogate head of 15 metres has been taken in the adjacent Watermain.

Sources, assumptions and limitations
Properties currently assessed to be below the reference level were originally derived from a combination of Zonal Studies and field pressure measurement studies. Annual targets for the removal of properties from the DG2 register, through Company action are set in the Final Determination for PC10. The target for 2010/11 was the removal of existing 220 properties.

Target 8 – Sewer flooding (hydraulic incapacity)

No target has been set for this KPI however at present measurement is for the purpose of annual information returns to the UR.

Purpose
The purpose of this KPI is to measure the number of properties affected by an incident of internal sewage flooding caused by an overload of a sewer (also termed hydraulic capacity) excluding those incidents resulting from severe weather.

Parameters of target
Number of properties affected by an incident of internal Sewerage flooding caused by an overload of a sewer (also termed hydraulic incapacity), excluding those incidents resulting from severe weather.

Measurement of target
A download of internal sewer flooding records is obtained from the Ellipse system on a month by month basis. The records are then sorted firstly by Internal or External area flooding, then Date and then by location i.e. Street, Property Number and finally by Town/City.

Investigations are then carried out for each reported incident and those properties found not to be flooded, after investigation using information from the Contractor, Flooding Incident Report Forms, Field Manager reports and contacting the Customers directly, are removed. Those properties found to be affected by an incident of internal Sewerage flooding caused by an overload of a sewer (also termed hydraulic incapacity) excluding those incidents resulting from severe weather will form a yearly total.

Assumptions and limitations
Because this process is still under development a challenging, yet achievable target is difficult to identify. As the quality of information improves during the PC10 period, NI Water will be in a position to set robust service targets for 2013 and beyond.

Target 9 – Sewer flooding (other causes)

Purpose

The purpose of this KPI is to have a readily available record of each individual property affected by an incident of internal sewage flooding caused by equipment failure in, blockage or collapse of, a sewer (also termed other causes), thus meeting regulatory requirements.

Parameters of target

Number of properties affected by an incident of internal Sewerage flooding, caused by equipment failures, blockages or collapses of a sewer (collectively termed other causes).

Measurement of target

A download of internal sewer flooding records is obtained from the Ellipse system on a month by month basis. The records are then sorted firstly by internal or external area flooding, then date and then by location i.e. Street, Property Number and finally by Town/City.

Investigations are then carried out for each reported incident and those properties found not to be flooded, after investigation using information from the Contractor, Flooding Incident Report Forms, Field Manager reports and contacting the Customers directly, are removed and the remaining properties are combined to give the yearly total.

Sources, Assumptions and limitations

We have assumed that a single incident includes recorded complaints from the same property on the same day or within three days.

Target 10 – Sewer flooding (at risk)

Purpose

The purpose of this KPI is to measure the number of properties removed from the 'at risk' Register of internal flooding by sewage, caused by overload, once in 20 years, or more frequently, against the outputs specified in the PC10 Final Determination.

Parameters of target

Number of properties removed from the 'at risk' Register of internal flooding by sewage, caused by overload of a sewer (also termed hydraulic incapacity) excluding those incidents resulting from severe weather, once in 20 years or more frequently.

Measurement of target

Most removals from the register will be a result of a capital scheme, however all removals have to be approved by the DG5 panel of experts. These are key personnel who will examine the evidence and approve or reject a request for removal of a property from the register. Measurement is the number of removals approved by the DG5 panel.

Sources, Assumptions and limitations

Because this process is still under development a target for the whole 3 year period of PC10 was set at 200 properties removed from the 'at risk' Register of internal flooding by sewage, caused by overload of a sewer (also termed hydraulic incapacity) excluding those incidents resulting from severe weather, once in 20 years or more frequently.

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.

Measurement of target
The annual average leakage figure is based on the end of year Water Balance and includes the key components of Water produced into distribution, metered consumption, and domestic consumption estimates.

Sources, assumptions and limitations
The Water Balance Action Plan, agreed with UR, has been implemented to increase the amount of Company specific components of the calculation. However, where Company specific data is not available, reliance is placed on approved industry standard values and practice together with statistics from approved agencies.

Leakage is an estimate. It is based on the assessment of various demand components as well as an estimate of Bottom Up leakage. Both internal and external sources of data are utilised and a confidence grade is applied to each estimate.

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 (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 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.

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

Target 14 – Comparative capital cost efficiency

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

Parameters of Target
The target expenditure within the capital programme falls into two categories
1. Named projects identified within the PC10 Final Determination which can (within the limitations of available budget) be carried out during the PC10 period; and
2. Programmes of work identified within the PC10 Final Determination - Water mains and sewers; which can (within the limitations of available budget) be carried out during the PC10 period.

This excludes projects brought into the capital programme as a result of changes after the submission of the NI Water business plan, for example to meet changes in Public Expenditure or in response to a Shareholder requirement. NI Water will include only those projects which have completed and delivered an outturn cost in the appropriate period.

Measurement of target
NI Water is in the process of developing its methodology for measurement of capital efficiencies. Capital efficiencies will be measured at the end of the PC10 period.

Sources, assumptions and limitations
The raw information required to calculate this target will be derived from the regulatory outputs and financial monitoring mechanisms. The primary assumption for the determination of capital efficiency by NI Water is that COPI[80] is unity, thus deflation and inflation due to indexation can be eliminated. The capital efficiency that NI Water can deliver is severely affected by the link to Public Expenditure, with consequent lack of year end flexibility and variable budget profiles.

The target is under development.

Target 15(a) – Billing

(a) percentage of measured bills issued within 5 working days of a meter reading **excluding** any exception readings that require investigation.

Purpose
Target 15(a) measures the first part of the cash cycle, the length of time it takes to issue bills to customers, excluding exception readings that require investigation, and highlight any delay in processes. The aim of this measure is to ensure that our customers receive bills on a timely basis, minimise the number of meter reading investigations and ensure timely upload of reads which may delay the issuing of invoices.

Parameters of Target
Target 15(a) for 2010/11 was 95%.

[80] Construction Outputs Price Index.

Measurement of target

Calculate the percentage of bills issued within five days of the meter reading, excluding any exception readings that require investigation.

Sources, assumptions and limitations

To maintain satisfactory levels of customer service as well as timely notification of the customer's consumption, it is important invoices are issued on a timely basis. The unmeasured annual bill run is excluded from this measure. The achievement of this target is dependent on the performance of the meter reading team and the outsourced partner handling customer billing and collections.

Target 15(b) – Billing

(b) percentage of measured bills issued within 5 working days of a meter reading **including** any exception readings that require investigation.

Purpose

Target 15(b) measures the first part of the cash cycle, the length of time it takes to issue bills to customers, including exception readings that require investigation, and highlight any delay in processes. The aim of this measure is to ensure that our customers receive bills on a timely basis, minimize the number of meter reading investigations and ensure timely upload of reads which may delay the issuing of invoices.

Parameters of Target

Target 15(a) for 2010/11 was 95%.

Measurement of target

Calculate the percentage of bills issued within five days of the meter reading, including any exception readings that require investigation.

Sources, assumptions and limitations

To maintain satisfactory levels of customer service as well as timely notification of the customer's consumption, it is important invoices are issued on a timely basis. The unmeasured annual bill run is excluded from this measure. The achievement of this target is dependent on the performance of the meter reading team and the outsourced partner handling customer billing and collections.

Target 16(a) – Days' sales outstanding (measured)

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 billing remains as debt.

Sources, 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, which lead to fluctuations in DSO.

Continued supply to non-payers
In the majority of cases, NI Water 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
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
Debts are only written off once confirmed as uncollectible, such as insolvencies. There is a lengthy approval process to write off any other debt.

Target 16(b) – Debtor days (unmeasured)

Purpose
This target measures how many days on average it takes the company to get paid for the bills it issues to unmeasured customers.

Parameters of Target
Target is the number of days taken on average to collect unmeasured bills.

Measurement of target
The unmeasured debtor days is calculated by taking the closing debtors for unmeasured customers divided by the unmeasured bills issued in the period, multiplied by the number of days in the period.

Assumptions and limitations

Billing Profile
The majority of unmeasured customers are billed annually therefore the measurement could increase as the financial year progresses, irrespective of the debt collection activities.

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

Write off policy
Our policy is to 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 – 'RIDDOR ACCIDENTS'

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 UR.

Parameters of target
This Target includes accidents which are reported within 24 hours, as required under NI Water's health and safety accident reporting procedures, and which result in over 3 day's absence immediately following the date of the accident (in line with RIDDOR).

Measurement of target
This RIDDOR target is equivalent to a 28.6% reduction on the average outturn in 2008/09 and is in line with NI Water's "Zero Accident Ambition".

Sources, assumptions and limitations
Health and Safety statistics are reported by line managers from all Directorates / Functions on DATIX, the NI Water approved risk management software package, from which health and safety statistics are compiled for monthly reporting to the Board and annually to the UR.

Target 18 – Manpower

Purpose
To measure and monitor the headcount as total operating costs for all permanent and temporary employees.

Parameters of target
Agreed percentage reduction in total costs associated with permanent and temporary employees.

Measurement of target
Agreed percentage reduction based on information supplied by the 'Oracle' HR IT Management System.

Sources, assumptions and limitations
Data is provided by the Oracle payroll system.

Target 19 – Employee attendance

Purpose
To monitor NI Water's employee attendance.

Parameters of target
Based on, the number of permanent full and part time employees, their total working days available and their attendance at work.

Measurement of target
Based upon the number of days an employee attends for work against the total number of days available for work.

Sources, assumptions and limitations
This excludes temporary employees.

Target 20 – Employee Engagement

Purpose
The employee engagement survey is designed to give a real insight to how we are doing against the goal – 'We want NI Water to be a truly great place to work' and how we are coping with the transformation of our organisation. NI Water is moving to a new measurement of employee satisfaction survey that measures the engagement level of employee, 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 a number of critical statements for every respondent, which when analysed across all the responses equates to a corporate engagement score out of 100.

The target 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:
- Credibility,
- Respect,
- Fairness,
- Pride; and
- Camaraderie

Sources, assumptions and limitations
The survey is carried out through an online and paper exercise as there is a need to continue with the distribution of paper surveys to the front line employee 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 MZC is the mean or average of the MZC values for all parameters as defined by the DWI.

Sources, assumptions and limitations
Compliance assessment is facilitated by a random sample programme which means that a specified number of samples ate collected from randomly selected addresses. Therefore the MZC 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 assessment of the 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. For this reason a three year span should be considered when assessing the improvement trend.

Target 23a and 23b – Waste Water quality

Purpose

The purpose is to monitor progress on compliance of those Waste Water Treatment Works serving, more than 250 population equivalent, with Water Order Consent numeric standards and the percentage of the population equivalent being served by compliant Waste Water Treatment Works.

Parameters of target

Target 23a relates to the percentage of the 239 Waste Water 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 Waste Water treatment works relating to the population equivalent served by the works. The in-house laboratory analyses samples for those parameters included in the Water Order Consent. Compliance for each Waste Water treatment works is assessed on a parameter basis using the Urban Waste Water Treatment Regulations (NI) 1995 Look-up Table. This statistically derived methodology permits a certain number of exceedances, based on the number of samples taken, for each parameter included in the Water Order Consent. When this number of exceedances is surpassed a works is deemed to fail. A number of Waste Water 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 the target is met. For target 23b, the population equivalent served by compliant works as a percentage of the total population equivalent served is calculated. Upper tier failures are excluded in this calculation, as agreed with the UR. The population equivalent is based on Asset Management Plan figures.

Sources, assumptions and limitations

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

Target 24 – Waste Water Treatment Works passing Urban Waste Water Treatment Directive numeric consents

Purpose
The purpose is to monitor progress on compliance of those Waste Water Treatment Works subject to the numeric standards of the Urban Waste Water Treatment Regulations.

Parameters of target
The target relates to the percentage of the 79 Waste Water Treatment Works which comply with the numeric standards of the Urban Waste Water Treatment Regulations.

Measurement of target
Samples are taken at each qualifying Waste Water Treatment Works. NI Water's laboratories analyse the samples for those parameters set out in the Urban Waste Water Treatment Regulations. Compliance for each Waste Water 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 Waste Water Treatment Works is deemed to fail. Overall compliance is calculated as the percentage of the Waste Water Treatment Works meeting the numeric standards.

Sources, assumptions and limitations
The qualifying Waste Water Treatment Works are determined in consultation with NIEA who make the assessment of the number of Waste Water Treatment Works meeting the standards of the Urban Waste Water Treatment Regulations.

Target 25 – Pollution incidents

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

Parameters of target
The target relates to the number of High and Medium pollution incidents attributed to NI Water by NIEA in a calendar year. The target is set on an annual basis, taking into account annual fluctuations in pollution incident numbers.

Measurement of target
NIEA provide a bi-monthly audit report indicating the number of 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 2010 outturn.

Target 26 – Capital works programme

Purpose
To provide a means of monitoring the progress of the 2010/11 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 2010/11 capital works programme.

Measurement of target

The target relates to schemes completed during 2010/11. 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 2010/11 was 90% completion.

Appendix C – Summary of Activities to Meet the Key Priorities Set Out in DRD's Social and Environmental Guidance (S&EG)

S&EG priority	NI Water's planned activities	Link to customer weighted priorities
1. Meeting EU quality obligations (statutory driver)	• Complete quality enhancements in the prioritised list of schemes agreed with NIEA and DWI for delivery in 2010-13. Make significant improvements at small and medium Waste Water treatment works. • Address immediate new development pressures for mixed quality and supply demand driven schemes. • We have not been able to include schemes specifically aimed at reducing immediate development pressures, and have excluded these from our plan.	• Pollution to inland Waters was customers' 2nd priority, and reducing pollution to coastal Waters was 4th. Safety of tap Water was 3rd priority. • Reducing frequency of Water supply restrictions was low priority (16th) hence the focus is on immediate pressures.
2.Improving service levels (non-statutory driver)	• Significant improvements to the register of properties at risk of 'out of sewer' flooding (the DG5 register) prioritising internal flooding. Reduce the number of properties at risk of internal flooding by 200 in the PC10 period. • Improve customer information systems (for example install CRM, improve call handling) and customer service measures (DG8-9). • Adopt a business operating model that prioritises customers. • Improve the accuracy and reliability of information reported by the business (e.g. upgrade the activity costs capture system, upgrade Oracle), and transform operational data capture (e.g. improve GIS, telemetry, and the corporate asset register). • Reduce supply interruptions >6 hours. • Reduce the number of pollution incidents.	• Customers' main priorities are reflected here, including: • Sewer flooding (1st). • Customer service systems improvements to ensure better response time (5th), ease of telephone contact (7th) and complaints handling (9th).
3. Water leakage and pressure (non-statutory)	• Reassess the economic level of leakage, meet revised target ELL. • Remove more than 70% of the properties currently experiencing low pressure.	• Reducing leakage was 12th priority. Low pressure was 15th.
4. Surface flooding (non-statutory)	• In the context of NI Water, surface flooding means external 'out of sewer' flooding incidents. We will work with other responsible agencies to respond effectively. • Improve the DG5 register of sewer flooding incidents to help to reduce the risk of surface flooding in situations where NI Water is responsible.	• External flooding in public spaces was 6th priority, flooding outside areas which people see was ranked 14th.

S&EG priority	NI Water's planned activities	Link to customer weighted priorities
5. Longer-term EU requirements beyond 2013 (statutory driver)	• Investigations relating to Water Framework Directive and Urban Waste Water Treatment Directive compliance. • These mandatory investigations will contribute to future compliance targets and schemes.	• This links to customers' priorities for reducing pollution (2nd and 4th).
6. Sustainability and climate change (non-statutory drivers, and Carbon Reduction Commitment)	• The innovation programme includes projects to improve NI Water's technology or processes, including several that address sustainability. For example: - Increase sustainable power generation at Waste Water treatment works. Introduce sustainable local power solutions for small works, increase power efficiency through process control and choose solutions that lower consumption. - Sustainable catchment management, sustainable treatment solutions. - Automatic unblocking of pumps for sewage pumping stations. - Improved coagulation control to minimise use of chemicals for Water treatment. - Low cost solutions for monitoring storm Water discharges. - Other initiatives to promote sustainability include continuation of our education programme, and promoting the efficient use of Water among our customers.	• Reducing carbon emissions was 11th priority. • Reducing the frequency of Water supply restrictions was ranked 16th. • Sustainability overall was seen as a longer term priority as reflected in the designation as priority 6.

Appendix D – Report by KPMG to Northern Ireland Water Limited on Regularity

Report by KPMG
Northern Ireland Water Limited 2010/11

1. Introduction

1.1 This report explains the basis of the qualified opinion on regularity we have formed regarding the 2010/11 statutory accounts for Northern Ireland Water Limited ("NIW").

1.2 Our opinion was qualified due to the irregular expenditure incurred as a result of significant breaches in controls over procurement in NIW.

2. Background

2.1 NIW was established on 1 April 2007 as a Government owned company with the Department for Regional Development ("DRD") as the sole shareholder. NIW is subject to companies' legislation. NIW was appointed under the Water and Sewerage Services (Northern Ireland) Order 2006 as the provider of Water and Sewerage services in Northern Ireland, operating under licence from the Northern Ireland Authority for Utility Regulation.

2.2 In addition to the requirements of companies' legislation, DRD established particular governance arrangements for NIW which allowed DRD to act in accordance with the Shareholder Executive approach for public sector shareholdings. The DRD Accounting Officer holds ultimate responsibility for DRD's shareholding in NIW. In meeting this responsibility, governance arrangements were agreed with NIW. This included appointing the Chief Executive as Accounting Officer for NIW. It also included financial delegations where limits were set for certain transactions above which shareholder approval was required. It also required that NIW would comply with relevant procurement guidelines (DFP guidance, DRD guidance and Utilities Contract Regulations).

2.3 Funding from DRD to NIW is in the form of revenue subsidy (NIW's main source of income), some 75 per cent of its income; and the issue of capital loan notes for investment in Water and Sewerage infrastructure. In 2010-11 DRD's subsidy to NIW was £263 million and capital loan notes of some £110 million were issued.

2.4 In October 2009 the Chief Executive of NIW (who had been appointed as a subsidiary Accounting Officer in September 2009) became aware of irregularities in the award of a contract in April 2007. This Single Tender Action contract had not obtained the appropriate internal and shareholder approvals in breach of NIW's delegated limits set by DRD. The delegated limit for Single Tender Actions is £250,000 and any over that amount require shareholder approval. The Chief Executive commissioned a wider review of contracts (the Contracts Approvals Internal Audit Review, published in January 2010).

2.5 Due to the significance of the issues emerging, the Chief Executive and DRD Accounting Officer commissioned a further review of contracts not examined in the Contract Approvals Internal Audit Review (the 'deep dive' audits). At the same time the Accounting Officers jointly commissioned an independent review team (IRT) to undertake a review of procurement governance issues within NIW. The IRT report of February 2010 found that the failures identified by internal audit were of a significant nature and represented a serious breakdown (in terms of the quantum of cases and monetary value) in the governance and control framework of NIW.

2.6 In light of the IRT report's findings, the Chairman and three non-Executive Directors of NIW were removed by the Minister for Regional Development in March 2010.

2.7 The 'deep dive' audits, completed in April 2010, identified further significant exceptions in the framework of procurement and contract management control and in compliance with the financial delegations framework. Taken together, the Contracts Approvals Internal Audit Review and the further 'deep dive' audits identified multiple instances of:

- Single Tender Actions greater than £250,000 where DRD shareholder approval was not obtained contrary to NIW's delegation limits; and
- Potential breaches of the Utilities Contract Regulations 2006.

2.8 There were many further instances of Single Tender Actions under £250,000 which required the approval of the Chief Executive (but not DRD approval) but which were not sought.

2.9 As a result of the above, the 2009/10 resource accounts of DRD were qualified as a result of irregular expenditure identified in respect of the financial years ending 31 March 2008, 31 March 2009 and 31 March 2010.

2.10 As a company governed by the Companies Act 2006 requirements, NI Water is not directly required to obtain a regularity opinion, however given the issues raised in the prior year, DRD issued a direction to NI Water dated 18 November 2010 requesting a regularity opinion be obtained for the 2010/11 financial year.

3. Irregular expenditure incurred

3.1 NIW, under direction from DRD dated 18 November 2010, is required to comply with the principles of Managing Public Money Northern Ireland (MPMNI), to ensure that public funds are applied only for the purposes which they were voted. Under these requirements DRD has delegated to NI Water an authority to enter into commitments and to spend within defined limits, subject to certain restrictions. These delegated authorities are further supported by NI Water's own internal policies in respect of procurement. NI Water's internal policies have been established so as to ensure that the company complies with or takes account of the following regulations/guidance:

- EU Procurement Thresholds (general EU guidance on procurement);
- Utilities Contract Regulations 2006 (legislation on procurement within utility companies);
- DRD guidance (as defined in the Financial Governance Memorandum dated 18 November 2010);
- Various DFP/CPD guidance; and
- Procurement requirements as set out in NI Water's licence to operate as Water and Sewerage undertaker.

3.2 As part of our audit work in this area we examined a sample of expenditure to ensure compliance with NI Water's procurement policies. The audit work addressed both capital and non-capital expenditure, and reviewed both on and off contract spend. In respect of the off contract spend our audit work reviewed expenditure in two categories, above £30k (competitive tender required as per DFP guidance) and below £30k (quotations). In respect of our work on the off contract spend below £30k we placed reliance on the work carried out by the Procurement Compliance Officer within NIW after conducting sample testing to establish that it was reasonable to do so.

3.3 Our audit work examined compliance with internal financial delegations in respect of the following areas:

- Award of contracts;
- Extension of contracts;
- Off contract expenditure;
- Single tender actions; and
- Compliance with Utilities Contract Regulations 2006.

3.4 As a result of our sample testing we identified £4.7m of irregular expenditure in the reporting period. This expenditure relates to circa 158 individual suppliers. The breaches related to the following areas:

- Single tender actions where DRD shareholder approval was not obtained contrary to NI Water's delegation limits;
- Potential breaches of Utilities Contract Regulations 2006;
- Breaches of internal delegation limits and procurement policies (set by DRD); and
- Non-adherence to DFP/CPD procurement guidelines.

3.5 £3.6m of the irregular spend related to items of operating expenditure (circa 156 items) and £1.1m of the irregular spend related to items of a capital nature (2 items). We have qualified our opinion because of this.

3.6 The exceptions in procurement and contract management control noted above are disclosed in NI Water's audited financial statements within the Statement on Internal Control (see page 47 to 53 of the financial statements). It is noted that a significant element of the instances of non-compliance set out in 3.4 above were identified by NIW through their own internal processes instigated to identify, and regularise, all irregular expenditure. The remaining items were identified as a result of our audit sampling and our enquiries/investigations.

3.7 We also noted the following issues during our review:

- Approval of purchase order not in accordance with internal authorisation levels;
- Instances of limited evidence being available to support additional spend occurred; and
- Purchase orders being raised retrospectively.

We have reported these issues to management but have not qualified our report in this regard.

3.8 We asked management if it had come to a view on whether there were conflicts of interest in the award of these contracts and whether there is evidence of fraud. Management told us that there was no evidence of fraud or conflicts of interest in relation to the expenditure which did not conform to relevant financial delegations and procurement regulations.

4. Actions taken by management

4.1 Following the issues identified in the prior year, NIW have instigated a series of measures aimed at regularising expenditure and ensuring compliance with financial delegations and procurement guidelines in respect of future transactions. These steps include:

- All quotation purchase requisitions are challenged for compliance to procurement procedures;
- Introduction of a Procurement for Goods and Services Procedure;

- Training for all directors and senior managers in the delegations and procurement procedures;
- Procurement activity and compliance presented as a standing board agenda item;
- Initial review of all off-contract expenditure and presentation of findings to the Audit Committee and Board;
- Establishment of a project board to oversee a detailed action plan to regularise expenditure with a focus on addressing key issues within the first phase (see 4.2 below);
- Regular review of off-contract expenditure;
- Rejecting quotation purchase requisitions where a contract should be used;
- Establishment of procurement committee to review key procurement controls;
- Single tender actions and contract extensions recorded in a contracts database and reported to the Procurement Committee, Board and DRD;
- Issues in re-tendering contracts due to expire within 9 months are reported to the Executive Committee and DRD; and
- Appointment of a procurement compliance officer, reporting directly to internal audit, who is responsible for carrying out compliance checks on purchase requisitions, contract award and extension, single tender actions, sole supplier requisitions and capital approvals.

4.2 The procurement team reported to the last Audit Committee a total of 88 suppliers with whom transactions are currently deemed irregular due to issues identified in 3.4 above. The total forecast spend on these suppliers is approximately £2.42m on an annual basis.

4.3 An action plan has been developed to regularise the suppliers identified in the initial review of off-contract expenditure (4.1 above). The action plan is in two phases, the first of which aims to regularise 63 of these suppliers, who have a total annual spend value of £2.08m, which is currently in process and due to be completed by July 2012. The remaining 25 suppliers, with an annual spend of £340k will form phase two which will commence in January 2012 with a target completion date of December 2012.

5. Conclusion

5.1 In forming our opinion on the 2010/11 Northern Ireland Water Limited statutory accounts, we are required to confirm whether in all material respects the expenditure (disbursed) and income (received) have been applied to the purposes intended by the Department for Regional Development as set out in their direction to the company of 18 November 2010 and the financial transactions conform to the authorities which govern them.

5.2 On the basis of our findings above, expenditure of £4.7m incurred by NI Water in 2010/11 which failed to conform to the relevant financial delegations set by DRD, and internal procurement procedures is irregular. Our audit opinion has been qualified as a result.

Appendix E – Schedule of Irregularities

Schedule of irregular expenditure in the year ended 31 March 2011 in respect of procurement and contract management control.

	Description of Irregular Expenditure	No. of items	Value £
1	Operating expenditure (note 1) greater than £30k over a four year period which should have been tendered.	142	3,327,144
2	Operating expenditure with suppliers identified in the NI Water Deep Dive Audits as being irregular.	14	260,171
3	Capital expenditure (note 2) which had not received proper internal approvals.	2	1,122,865
	Total	**158**	**4,710,180**

Note 1
Operating expenditure in 2010/11 (excluding staff costs, depreciation and impairment losses) totalled £130m (refer to "Operating Expenses" in the Statement of Comprehensive Income, note 7, note 8 and note 11).

Note 2
Capital expenditure (excluding staff costs capitalised) in 2010/11 totalled £174m (refer to statement of cash flows and note 8).

Appendix F – Glossary of Key Terms and Abbreviations

Capital costs	Costs incurred by the organisation which provide benefits over a long time period e.g. costs of constructing a Water Treatment Works
Cash (Section of the report)	Activities of the organisation associated with financing and economic regulation
CCNI	Consumer Council for Northern Ireland
Compliance (Section of the report)	Activities of the organisation associated with meeting our environmental obligations
CSO	Combined Sewer Overflow
Customer (Section of the report)	Activities of the organisation associated with our customers
DRD	Department for Regional Development
DWI	Drinking Water Inspectorate (Northern Ireland)
GAAP	Generally Accepted Accounting Practice
HSE	Health and Safety Executive
IFRS	International Financial Reporting Standards
IRC	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
IRE	Infrastructure renewals expenditure
IRT	Independent Review Team
KPI	Key Performance Indicator
Ml/day	Mega litres per day
MPMNI	Managing Public Money Northern Ireland
MZC	Mean Zonal Compliance
NDPB	Non Departmental Public Body
NICS	Northern Ireland Civil Service
NIE	Northern Ireland Electricity
NIEA	Northern Ireland Environment Agency
NIR	Northern Ireland Railways
NIW	Northern Ireland Water Limited
Operational costs	Costs of running the day to day operations of the organisation which provide benefits over a short time period e.g. electricity costs
OPI TIM	Operational Performance Indicator for turbidity, iron and manganese
PAC	Public Accounts Committee
PC10	Price Control 2010-13
People (Section of the report)	Activities of the organisation associated with our employees
PPP	Public Private Partnership
RoSPA	Royal Society for the Prevention of Accidents
S&EG	Social and environmental guidance issued by the DRD

SQI	Suitably Qualified Individual
UK GAAP	UK Generally Accepted Accounting Practice
Utility Regulator (UR)	The Northern Ireland Authority for Utility Regulation
VER	Voluntary Early Retirement Scheme
VES	Voluntary Early Severance Scheme
WTW	Water Treatment Works
WWTW	Waste Water Treatment Works

Northern Ireland Water
PO Box 1026
Belfast
BT1 9DJ

Email: waterline@niwater.com
Waterline: 08457 440088
Text Phone: 08457 023206
www.niwater.com

northern ireland water

ISBN: 978-1-907007-06-4