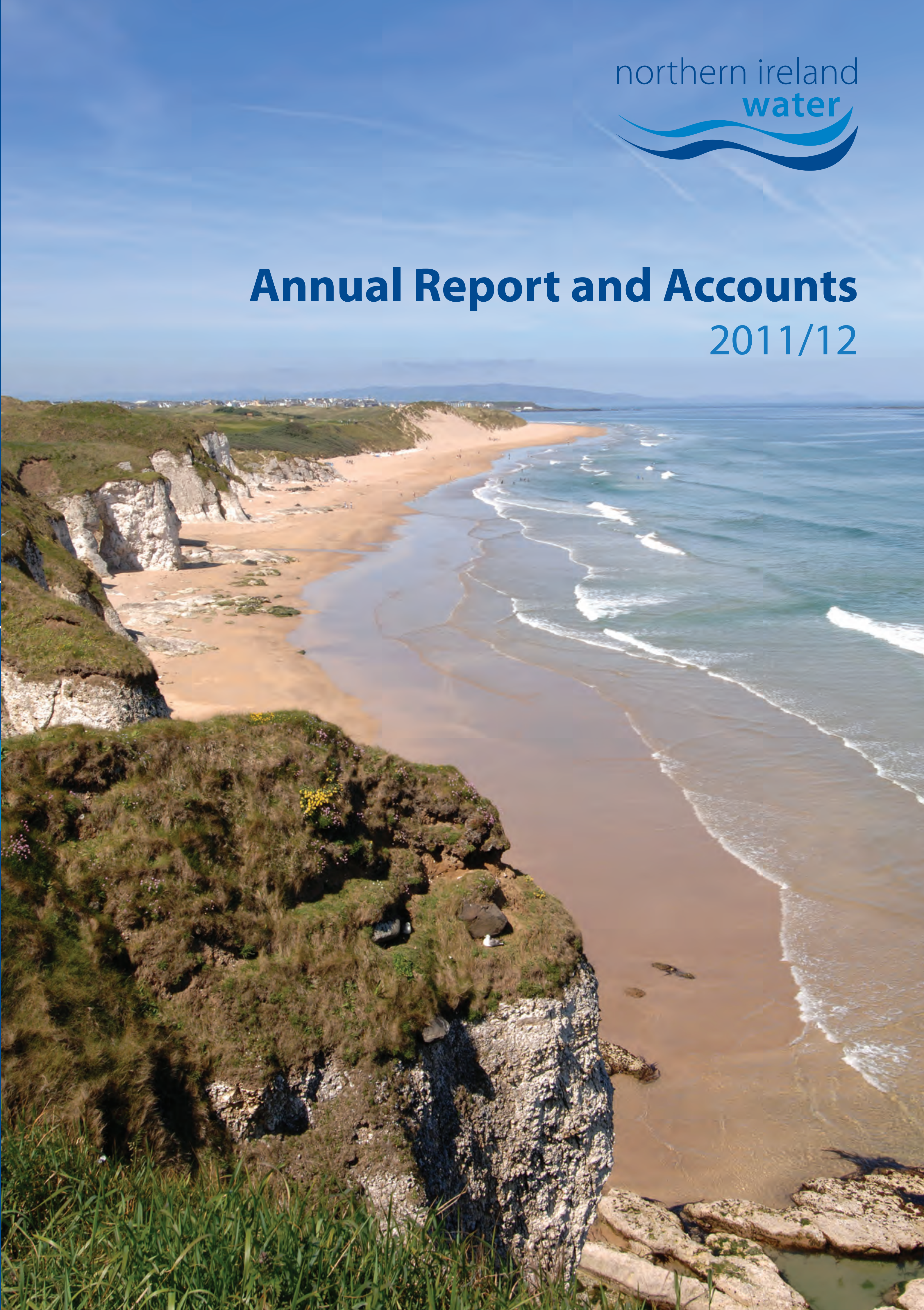
northern ireland
water

Annual Report and Accounts
2011/12



Northern Ireland Water Limited
Annual Report and Accounts
for the year ended 31 March 2012

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

1 August 2012

About this report

We are delighted to present our Annual Report and Accounts for the year ended 31 March 2012.

What is this document about?

This document includes the following:

- **Review of our business performance** including description of significant industry trends that are likely to influence our future prospects;

- **Statutory Accounts** covering both our appointed[1] and non-appointed business activities prepared under International Financial Reporting Standards (IFRS); and

- **Regulatory Accounts** which are specifically designed for the water industry and focus on our appointed business activities, prepared under the Regulatory Accounting Guidelines (UK GAAP[2] based).

We welcome your feedback

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

Our contact details are on the back cover of this report.

This publication is also available for download from our website at www.niwater.com/ corporatereports.asp

[1] The majority of NI Water's business activities are not undertaken in competitive markets and are therefore subject to economic regulation by the Utility Regulator. Such activities are termed 'appointed' or 'regulated' activities.
[2] UK Generally Accepted Accounting Practice.

Contents

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

BUSINESS REVIEW

NI Water's Chief Executive, Trevor Haslett with the DRD Minister Danny Kennedy MLA at the launch of the Wastewater Treatment Project at Newcastle, Co Down.

Welcome

NI Water is one of Northern Ireland's largest companies and is responsible for the delivery of water and sewerage services in Northern Ireland[3]. We provide a **vital service** which supports the health, environment and local economy of the areas we serve.

Seán Hogan, Chairman.

The 2011/12 period represents another step in our **transition** towards being a modern, efficient water utility. This process will take time but we have built on previous progress and continue to improve performance.

We have reduced the operational cost efficiency gap between NI Water and the most efficient English and Welsh water and sewerage companies from 49% in 2007/08 to 34% in 2010/11.

The 2011/12 efficiency gap is not yet available.

Significant work has been undertaken during 2011/12 to **rebuild our customers' confidence** in the organisations ability to meet the demands of extreme weather conditions, or indeed any major incident. We are confident that the improvements put in place will enable us to respond much better when faced with such events in the future.

The notional average domestic water and sewerage bill is around £408 per annum or **£1.12 per day**. This compares against an England and Wales average bill of £379.

Domestic charges are met by Government subsidy. The comparative NI Water bill does not include the costs of domestic billing and domestic debt recovery costs.

[3] NI Water was appointed the sole provider of water and sewerage services in Northern Ireland on 1 April 2007. These functions were previously undertaken by Water Service, an agency within the Department for Regional Development.

Our **investment** is improving the quality of our service. The investment of over **£1.3bn**[4] since April 2007 is improving our water and wastewater compliance to levels never before seen in Northern Ireland.

Our **customers** are benefiting from this investment as can be seen by the improved levels of service.

Working as both a Government Company and a NDPB[5] (hybrid model) creates organisational strains on operating both of the **delivery models**. Compared to our comparator group in England and Wales, we have fewer financial incentives to outperform; face more uncertainty over long term investment planning resulting in a suboptimum capital investment delivery model; and have less commercial freedoms to restructure and make decisions.

Despite these challenges, the progress made over 2011/12 has enabled the organisation to move further along our **transition** path. We look forward to reporting further

We have **improved the levels of service** to our customers. Our OPA score has increased from 98 in 2007/08 to **184** in 2011/12.

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

We are one of the few regions in Europe without domestic water or sewerage charges. Over **65%** of our income (around £269m) is in the form of Government subsidy.

The DRD is developing a long term **Water Strategy for Northern Ireland** which will inform the Price Control period commencing in 2015.

Page 18
Read more about the Price Control process.

[4] Based on capital investment within the Regulatory Capital Value and the cost of the Public Private Partnership (PPP) schemes.
[5] NI Water is classed as a Non Departmental Public Body (NDPB) as it receives significant government subsidy for the deferred domestic water charges. NI Water is therefore subject to public expenditure constraints.

progress in the final year of our current Price Control period, 2012/13, and to working constructively with all our stakeholders as we approach our next Price Control period commencing in 2013/14.

Seán Hogan
Chairman
27 June 2012

NI Water Chair, Seán Hogan with Kaelle Harrigan at our Customer Contact Centre.

The water cycle

Of all the water in the world, only **1%** is fresh water which we can access for our needs. Water is precious – use it wisely.

The Amazing Cycle of Water

The seas hold 97% of the world's water and are salty.
2% is frozen in the polar ice-caps.

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

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

The Water Cycle

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

Just like a bicycle wheel, the water cycle has no beginning and no end. It has been the same since time began.

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

Reservoir

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

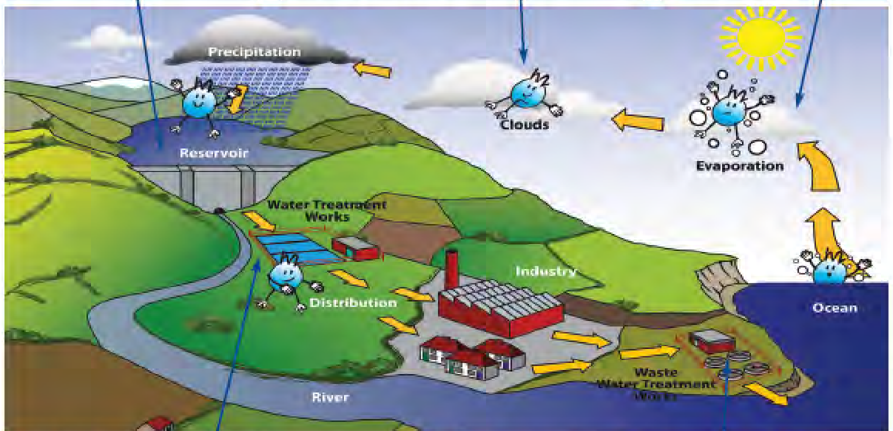
Cloud Storage/Rain

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

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

Evaporation

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



Water Treatment Works

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

Wastewater Treatment Works

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

Supply and Demand

The rise in (a) population (b) the building of new towns and industry and (c) water-based pass times, have all created an increasing demand for water.

We each use approximately 155 litres of clean treated water every day for washing, cooking, drinking, watering the garden, etc.

Currently Northern Ireland Water supplies around 584 million litres of water each day.

Use Water Wisely

The extraction, treatment, distribution and disposal of water is expensive and affects the environment. Therefore, we all need to use water wisely.

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

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

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

At a glance

Serving our customers

Delivered clean **safe drinking water to** around **753,400** households and businesses.

Removed 262 properties from the register of those at risk of **low water pressure.**

Less than 0.87% of customers had an **unplanned interruption** lasting more than 6 hours.

Bettered our **leakage reduction target** by **3 million litres** per day.

Page 24
Read more about our customer services.

Investing for the future

Invested over **£1.3 billion** since the formation of NI Water.

A further **£147m**[6] of **investment** is **scheduled** by 31 March 2013 to deliver real benefits **for** our **customers,** the **environment** and the **local economy**[7].

Page 44 Read more about our investment.

Prioritising safe drinking water

Sustainable treatment of wastewater

Delivered some of the highest water and wastewater compliance[8] ever recorded in Northern Ireland.

Supplied **584 million litres** of good quality **drinking water** every day to 753,400 households and businesses through over 26,400 km of water mains. Overall drinking water compliance for 2011: 99.80%.

Investing £108 million on drinking water and environmental improvements over 2010-13.

Page 38
Read more about our water services.

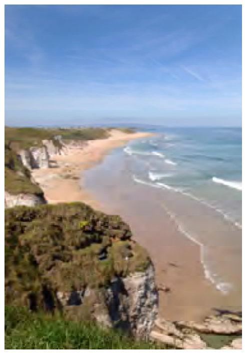
Every day **320 million litres** of **wastewater** from around 613,500 homes and businesses is flushed through 15,090 km of sewers to our 1,042 treatment works.

Reduced pollution incidents by over **4%** from 2010. 2011 wastewater treatment works compliance: 95.95%.

Page 41
Read more about our wastewater services.

[6] Per NI Water's 2012/13 budget. UK GAAP based in line with Final Determination.
[7] £189m in 2011/12 and £148m in 2012/13. UK GAAP based in line with Final Determination.
[8] The water and wastewater compliance targets are reported on a calendar year basis.



Protecting the environment

The treatment of water and wastewater is an energy intensive process.

We are one of the largest users of electricity in Northern Ireland using around **299 gigawatts** per annum at an annual cost of around **£30m.**

To mitigate against the impact on the environment we procure around **16%** of our electricity from **renewable sources** and self generate a further 1%.

We also partner with a range of stakeholders to improve biodiversity.

Page 53
Read more about protecting the environment.

Working more efficiently

Reduced the **operational cost efficiency gap** between the most efficient English and Welsh water and sewerage companies by **15%** over the 2007-11 period.

Our focus on efficiencies continued in 2011/12, contributing towards the delivery of **£12m** of **operational cost efficiencies.**

Page 70
Read more about delivering efficiencies.

Valuing our stakeholders

We **worked with** our **stakeholders** as part of the **Price Control** for the 2013-15 period.

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**.

Page 15
Read more about our stakeholders.

Working for our local economy

Our capital investment programme is **supporting the economic strategy for Northern Ireland** through investing in infrastructure to facilitate economic growth.

We contributed around **£55 million** to the Northern Ireland economy in staff costs alone.

Page 72
Read more about the contribution we make to our local economy.

Performance highlights

The focus for 2011/12 continued to be on our **core business** – the delivery of the most cost efficient and high quality water and wastewater services possible within the confines of our current business delivery model.

Trevor Haslett, Chief Executive

Rebuilding confidence

We are on track to implement the various recommendations and lessons learned arising from the winter 2010/11 water supply issues. In particular, we have undertaken a complete overhaul of our procedures to respond to major incidents and upgraded our call answering systems and website. This work has required considerable input from across the organisation and our key stakeholders, including independent assessment of progress.

We **completed 90%** of the **actions** assigned to NI Water in the various reviews which followed the winter **water supply issues** of 2010/11. Some of the actions are longer term and will be delivered over the 2013-15 period.

Based on completion of 150 out of 167 actions assigned to NI Water.

Improved levels of service

Our customers continue to benefit from higher levels of service. Water and wastewater compliance is at some of the highest levels ever in Northern Ireland. Customers have also seen lower levels of interruptions to their water supply, improved response times to calls and complaints and lower levels of leakage. The removal of properties at risk of sewer flooding remains a key area of focus – we aim to have full

Our wastewater **compliance** is the **highest ever in Northern Ireland** having continually improved over the last 6 years.

In 2011/12 we **bettered** our **leakage reduction target** by **3 million litres per day,** saving water equivalent to around one Olympic sized swimming pool each day.

internal and external historical flood reporting capability in place by April 2013.

Operating more efficiently

Operational cost efficiencies have been generated through a range of measures which included in-sourcing and making better use of in-house skills; office rationalisation; reducing operational contractor costs and continuing our Voluntary Early Retirement and Voluntary Severance schemes.

We delivered **£12m** of **operational cost efficiency savings** in 2011/12, against a target of £10.4m, through our continued focus on cost control.

Protecting our environment

As one of the largest landowners and users of electricity in Northern Ireland, our activities have a significant impact on the environment. We have implemented Sustainable Catchment Area Management Planning (SCAMP) for drinking water catchments to provide a more environmentally sustainable way of improving water quality. We are also targeting energy efficiencies and the use of renewable sources of energy to mitigate our impact and reduce the production of climate change gases. Our commitment to the protection of the natural environment is further demonstrated by the continued accreditation of our Environmental Management System under ISO 14001.

Pollution incidents have been **reduced** by more than **4%** from 2010.

Carbon Trust Accreditation – we have been independently assessed as having good policies and procedures with respect to energy and carbon management and reduction.

Creating a safe working environment

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

We received the **ROSPA Gold awards for health and safety** in 2010 and 2011.

ROSPA is the Royal Society for the Prevention of Accidents.

Looking forward

The focus for 2012/13 will continue across the above areas and will support our preparations for the 2013 and 2015 Price Control periods (PC13 and PC15[9]).

We submitted our draft **PC13 Business Plan** in May 2012 in line with the timetable agreed with the Utility Regulator.

I would like to thank the Board and my management team for their support during 2011/12 and our employees for their continued drive and enthusiasm to deliver improved levels of service to our customers.

Trevor Haslett.

Trevor Haslett
Chief Executive
27 June 2012

[9] PC13 covers the two year period ending in 2014/15. PC15 commences in 2015/16 and its duration is still to be determined.

Investing in Northern Ireland

We have invested over **£1.3 billion** in improving Northern Ireland's water and sewerage infrastructure since our formation in 2007/08.

Over the 2010-13 Price Control (PC10) period we plan to invest around £504m across the following areas (based on nominal prices excluding grants and contributions):

£246m to **maintain** our water and sewerage network and our treatment works;

£120m to support **new customers and additional demand** from existing customers;

£108m on **drinking water and environmental improvements** to protect our local biodiversity; and

£30m to enhance our **customer service** such as reducing internal flooding, low pressure and supply interruptions.

Our business strategy

Prioritising Customers

We aim to continually focus on our customers by cost effectively offering quality, responsive services. Our approach therefore puts customers first and is set out in our Business Plan for the 2010-13 Price Control (PC10) period.

An overview of our PC10 Business Plan is shown below.

Prioritising Customers

Stakeholders	Our aim	Themes	Objectives	Results
Customers	Continually focus on our customers by cost effectively offering quality, responsive services	Customer	Improve customer satisfaction Understand cause for complaints	Contented Customers
Shareholder		Cash	Reduce costs and improve efficiency Improve control environment	Satisfied Shareholder
Regulators		Compliance	Create a data quality culture Improve water and wastewater Develop effective, controlled business Deliver stakeholder requirements	Satisfied Regulators
Employees		People	Develop the capability to deliver Champion Health and Safety Efficient and effective resourcing	Proud Employees

www. http://www.niwater.com/pc10.asp

Key Performance Indicators

Key Performance Indicators (KPIs) are used to measure performance against our strategic objectives as set out on the previous page.

Theme	Headline KPI	Target 2011/12	Actual 2011/12	Target 2012/13
Customer	**Supply interruptions** - number of properties experiencing unplanned and unwarned interruptions (expressed as a percentage of households) in excess of: (%)			
	> 6 hours	0.969	0.867	0.939
	> 12 hours	0.211	0.094	0.202
	> 24 hours	0.010	0.002	0.010
	Telephone contact			
	Call not abandoned (%)	99.00	99.15	99.00
	Call not all lines busy (%)	99.90	100.00	99.90
	Customer satisfaction (score out of five)	4.70	4.57 (4.67 in fourth quarter of 2011/12)	4.70
	Sewer flooding - other causes. Number of properties affected by an incident of internal sewage flooding caused by equipment failure in, blockage or collapse of, a sewer	23	23	23
	Leakage (million litres per day)	171.00	168.23	168.00
Cash	**Operating margin** (%)	34.7	29.0	34.5
Compliance	**Water quality at the tap*** - mean zonal compliance - (%)	99.7	99.80	99.7
	Wastewater quality* – wastewater treatment works serving greater than 250 population equivalent achieving compliance with Water Order Consents expressed as a percentage of population equivalent (%)	94.83	95.95	96.5
	Pollution incidents* - number of high and medium pollution incidents attributed to NI Water	51	44	48
People	**Health and safety** – number of lost time accidents (3 day)	9	4	8

* Calendar year target

Achieved target

Failed target

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

Risks and uncertainties

The commercial risks and uncertainties which could have a material impact on our business, financial condition, operations and reputation are shown below.

Principal risk area
1. Asset or operational failure
2. Under performance against the PC10 targets
3. Uncontrollable events such as energy cost shocks or climate change
4. Changes to environmental legislation
5. Robustness and accuracy of data
6. Impact of any future domestic billing
7. Replacement of capital loan notes
8. Inappropriate PC13 final determination
9. Increase in pension scheme liabilities

Page 89
Read more about risk and uncertainties.

Page 92 to 96
Read about our risk management framework.

Our marketplace

Water and wastewater industry

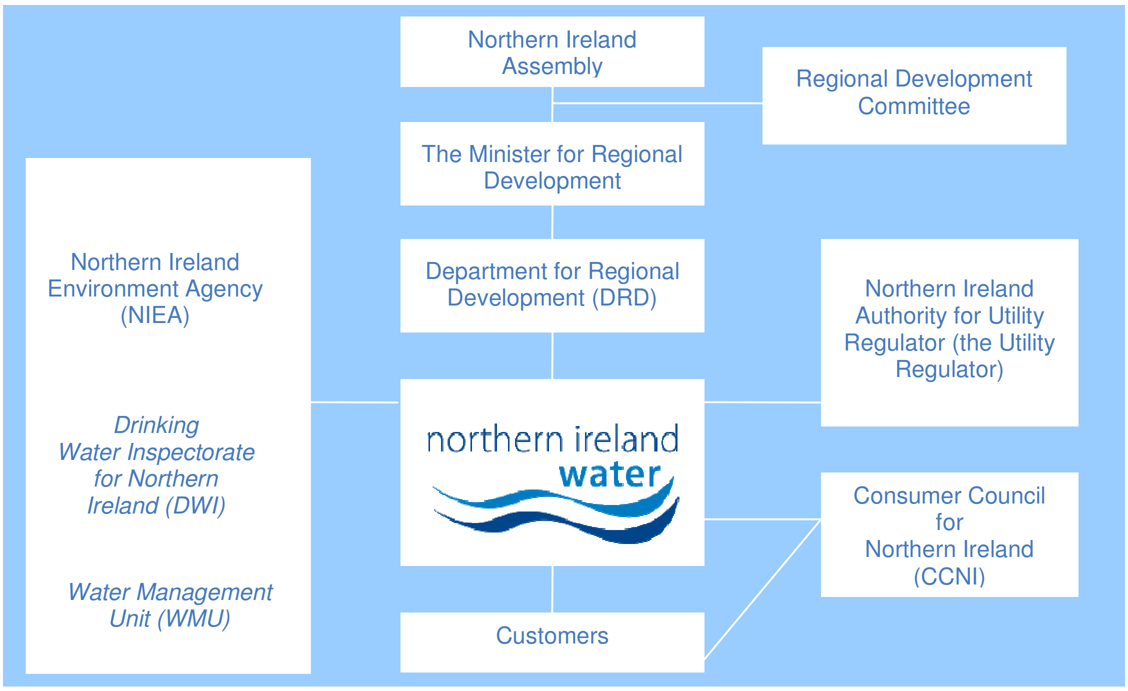
NI Water is **one of 26 providers** of water and sewerage services **in the UK**. 23 providers are based in England, one in Scotland, one in Wales and one in Northern Ireland.

Different ownership models operate across the UK water sector. The providers in England are privately owned companies, Wales has a not-for-profit company, Scotland has a statutory corporation and Northern Ireland has a Government Owned Company[10]. The water industry structure in Northern Ireland is shown below.

WATER UK

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

www.water.org.uk/



Water industry structure in Northern Ireland.

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

Role of Government

The DRD's Water Policy and Shareholder Units are responsible for setting water **policy**, for our **funding** through customer subsidies and lending the funds to support our investment programme. We work to deliver the agreed **rate of return** for the investment made by the DRD. We are also focused on securing growth to the **Regulated Capital Value**[11] as a result of investing efficiently and in the areas of highest priority.

Page 68
Read more about the Regulatory Capital Value.

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

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

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

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

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

Visit by members of the Regional Development Committee to NI Water's Customer Relations Centre.

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

Regulators and regulatory environment

Utility Regulator

The majority of NI Water's activities are not undertaken in competitive markets and are therefore subject to **economic regulation** by the Utility Regulator. Water regulation (as in Scotland) is on a 'one-to-one basis'. The Utility Regulator also regulates the gas and electricity markets in Northern Ireland.

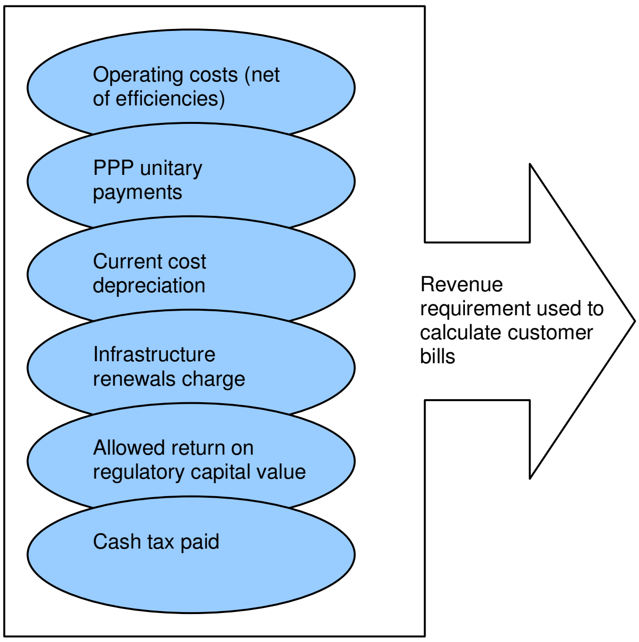
Our **revenue requirements**, the amounts charged to our customers and our performance outputs are set by the Utility Regulator through a **Price Control process** based on that used by the economic regulator in England and Wales, Ofwat. The current Price Control (PC10) covers the three year period to 31 March 2013.

Utility Regulator
ELECTRICITY GAS WATER

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

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

See the latest Cost and Performance Report on NI Water at: http://www.uregni.gov.uk/uploads/publications/Costs_and_Performance_report_2010-11.pdf



	2011/12
Average English and Welsh bill	£379
Comparative NI Water bill	£408*
Highest English and Welsh bill (South West Water)	£517

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

Building blocks used to set NI Water's revenue requirements.

The Utility Regulator **benchmarks** NI Water's performance against the comparator set in England and Wales. The results of this analysis are published by the Utility Regulator in an annual **Cost and Performance Report**. The efficiency gap with the most efficient water and sewerage companies in this comparator group (the frontier companies) is shown below:

The operating cost **efficiency gap** to the most efficient English and Welsh water and sewerage companies is calculated at **34.1%** in 2010/11. The gap to the average of these companies is **27.4%** in 2010/11.

The 2011/12 efficiency gap is not yet available.

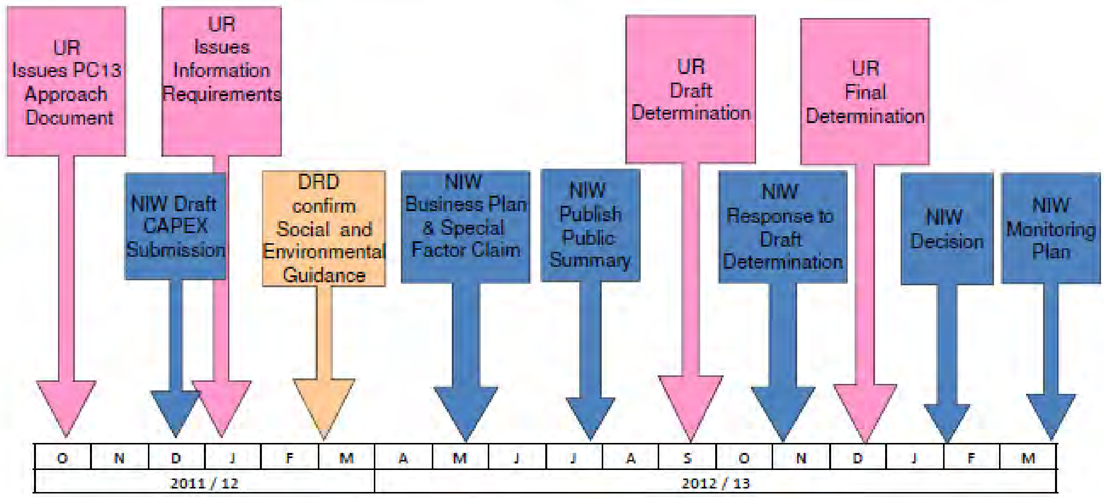
Operating cost efficiency gap.

Year	2007/08	2008/09	2009/10	2010/11
Gap to frontier	48.7%	43.1%	39.7%	34.1%

Price Control (2013-15)

The timetable for Price Control covering the 2013-15 period is shown below. NI Water submitted its draft business plan to the Utility Regulator in May 2012. The Utility Regulator will review the business plan and make a Draft Determination on the plan in September 2012 followed by a Final Determination in December 2012.

PC13 timetable.



Northern Ireland Environment Agency

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

Northern Ireland Environment Agency
www.doeni.gov.uk/niea

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

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

See the latest drinking water quality reports at:

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

Drinking Water Inspectorate

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

Water Management Unit

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

Consumer Council for NI

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

The Consumer Council

www.

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

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

http://www.consumercouncil.org.uk/newsroom/781/

Operating area

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

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

NI Water's operating area.

Legislative and public policy environment

Public expenditure

NI Water was designated as a **Non-Departmental Public Body** (NDPB) for public expenditure purposes in March 2009. This followed the decision by the NI Assembly to **defer the introduction of direct domestic charges**. The DRD provides a public expenditure subsidy to replace the revenue that would otherwise have come from domestic customer billing[12].

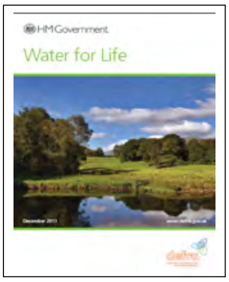
The NDPB designation requires our **regulatory funding requirements to be managed within the public expenditure funding constraints**. Therefore, whilst the Utility Regulator determines the expenditure necessary to deliver outputs in a price control period, the actual funding is constrained by public expenditure allocation to NI Water. This situation was not envisaged at the outset of the PC10 process and has since been **partially addressed by a Memorandum of Understanding** (MoU) between the DRD and the Utility Regulator which sets out the process for adjusting the PC10 Final Determination to reflect the public expenditure allocations.

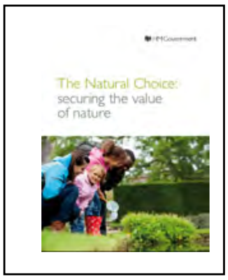
Water Strategy for Northern Ireland

The DRD is preparing a long term Water Strategy for Northern Ireland which will likely include consideration

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

Water and Natural Environment White Papers





http://www.defra.gov.uk/environment/quality/water/legislation/whitepaper/

http://www.defra.gov.uk/environment/natural/whitepaper

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

of the UK Government's Water White Paper and Natural Environment White Paper published in 2011. The Water Strategy will **inform the Price Control Period commencing in 2015/16**.

Business environment

Economic conditions

The weak economic conditions in Northern Ireland have had an impact on the financial performance of NI Water. **Consumption levels have decreased** during 2011/12, leading to an **income reduction** from customers with measured and unmeasured water supply.

It is predicted that Northern Ireland's economy will show relatively flat spending growth in 2012/13. This would suggest that **demand should remain relatively constant**.

We have seen **input cost inflation during 2011/12** with Retail Price Inflation (RPI) rising above 5%. The levels of inflation have started to fall over 2012/13.

The economic downturn has resulted in an increased level of metal theft.

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**.

We are part of a **Northern Ireland Utilities Group**, in conjunction with Crimestoppers, which promotes public awareness, and are involved in the National Fraud Initiative. NI Water also participated in a conference at Stormont on 27 March 2012 to heighten awareness of **metal theft**.

Customers

Providing a quality service to our customers

Ulster Farmers Union Dairy Policy Committee Chairman Andrew Addison pictured with NI Water's Des Shields lagging pipework in a dairy.

Service delivery

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

Sewer flooding (internal)

Preventing sewage coming into customer's homes is a **key area of focus**. We are developing a register of properties at risk from both internal and external flooding which will be in place by April 2013.

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

Cllr Gerard McCabe with John Kelly and Gary Little of NI Water

LIGONIEL BAG IT AND BIN IT

What really lurks beneath our homes? The answer, in Ligoniel, is everything from nappies, to cotton buds and baby wipes.

NI Water carried out investigations into the sewerage infrastructure in the area following a large blockage which resulted in out of sewer flooding. NI Water's customer manager for the area Gary Little, explains:

"NI Water responded to reports of out of sewer flooding at the steps in Ligoniel and found the cause to be a large blockage of inappropriate items. Amongst those items were massive amounts of baby wipes and sanitary items.

"This is not the first time this particular manhole has become blocked with inappropriate items and we welcome local support from Councillor Nicola Mallon and Councillor Gerard McCabe who contacted us about the issue. We would like to thank them for helping us raise awareness of our Bag It & Bin It campaign in the community.

"There is a common misconception that it is ok to flush wipes, cotton buds and sanitary items when in fact, sewerage systems are not designed to cope with them. The very nature of wipes and sanitary items is to absorb water, not to break down like toilet roll. Therefore, when in the sewer, they absorb, expand and cause blockages."

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

Sewer flooding (external)

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

Low water pressure

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

Our **Geographic Information Systems** (GIS) have been developed to allow our call centre staff to identify customers with known low pressure issues. We also maintain a list of properties at risk of receiving their water supply below a certain pressure. Our **mains rehabilitation programme** is reducing the number of properties with low pressure.

In 2011/12 we **removed 262** properties from the risk of receiving **low water pressure**. Over the PC10 period this will increase to **800** properties in total, leaving around 1,500 registered properties.

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

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

Interruptions to water supply

We aim to provide enough water for everyday things such as drinking, washing, cooking, running your central heating and flushing the toilet. **Sometimes we may have to turn off our customers' water supply to carry out essential work**.

We provide **alternative water supplies** for interruptions lasting **more than 24 hours**. Customers on our care register will receive alternative supplies when interrupted for less than 24 hours.

We have **reduced** the level of unplanned supply interruptions experienced by customers over 2011/12. **Less than 0.87%** of customers had an unplanned interruption lasting **greater than 6 hours**.

During the Ballymoney water quality incident in November 2011, we **proactively contacted customers on** our **customer care register** in the affected areas and provided bottled water.

Reducing leakage

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

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

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

In 2011/12 we bettered our **leakage reduction** target by **3 million litres per day**. This out performance against the target saved water equivalent to around one Olympic sized swimming pool each day.

Saving water

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

- **reduce the number of leaks** on our pipes;
- **promote appliances, facilities and practices** that help save water;
- raise awareness of consumption through **metering** of commercial customers; and
- **educate** schools and communities on water efficiency.

Our 2011/12 education initiatives improved consumers' water efficiency measures, resulting in a saving of around **0.3 million litres** of water per day.

Page 73
Read more about our Education Programme.

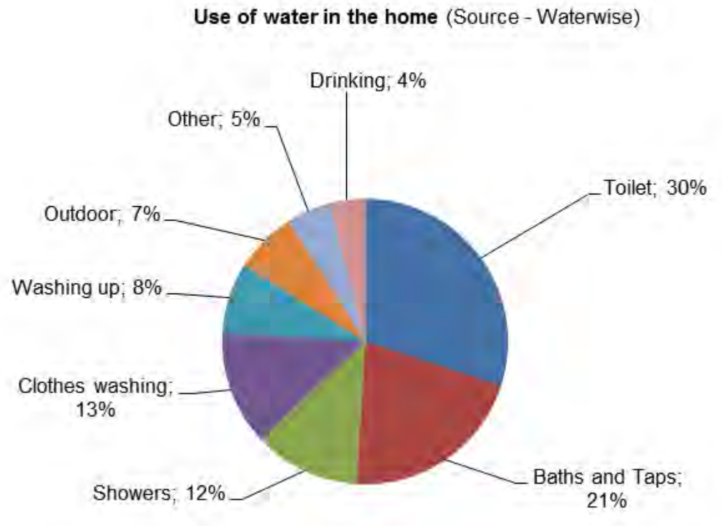
On average, each of us use **155 litres of water daily**. Water is a key element within many resources we use. Over **60%** of the UK's **water footprint** comes from **imported goods and services**.

The water footprint is defined as the total volume of freshwater which is used to produce goods and services which individuals, communities and businesses consume.

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

We are undertaking a water efficiency **pilot project** in partnership with Omagh District Council to investigate the **link** between domestic **water efficiency** measures and reduction in **demand**.

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



[Note - water usage figures are indicative for Northern Ireland as they are based on use in other parts of the UK.]

Providing clear accessible information to customers

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

Codes of Practice

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

Vulnerable customers

We have increased the number of individual customers on our **Customer Care Register** to **1,990** during 2011/12.

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

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

Remember –

LOCK,

LOOK,

CHAIN and

CHECK.

Deaf Awareness/Sign Language Training

In recognising the diversity of our customer base, NI Water is working to provide the best possible service to our more vulnerable customers. As part of this, a number of NI Water staff, have participated in sign language classes.

The classes are led by John Carberry MBE of Action on Hearing Loss, and are proving to be highly beneficial to staff. The course involves basic British and Irish Sign Language, and the participants, all volunteers, will be at the forefront of NI Water's communication with our deaf and hard of hearing customers.

Liam Mulholland, NI Water Head of Customer Service Transformation, says: "*These classes are an excellent method of enhancing communication with our deaf and hard of hearing customers. There is a genuine commitment on behalf of NI Water to provide the best possible customer service to our entire customer base, and these sessions, with participants from right across the business, demonstrate that. I'd like to extend my sincere thanks to all participants, and also to John Carberry for his direction and guidance. John's colleagues at Action on Hearing Loss and at the British Deaf Association have been a tremendous help in facilitating our communication with this segment of our customer base, and I'd like to thank them also.*"

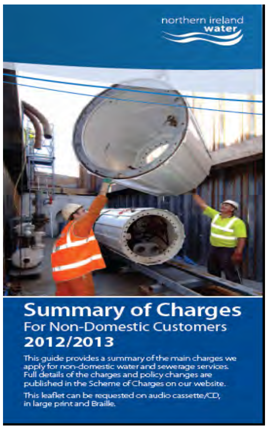
John Carberry instructing the class on Sign Language

Billing

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

We achieved the 5 day target response time for billing contacts (DG6) at **99.97%** against the target of **99.90%**.

NI Water's Summary of Charges:



www.

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

Accurate measured bills are central to customer account management and we had a series of performance targets for meter reading and measured billing in 2011/12:

- **97.5%** of bills to be based on actual meter reads – we achieved **97.88%**; and

- **95% / 98%** of bills to be issued within 5 working days of a meter reading (including / excluding any that require investigation). Our performance of **94.8%** and **96.4%** respectively fell below our targets. Our performance in 2011/12 was **adversely impacted by on-going data quality projects** for metered customers which caused 're-prints', thereby extending the 'read to bill print' time period.

We continue to work on billing improvements which will be introduced throughout 2012/13 and include both a **new bill format** which will be easier for all customers to understand and consolidated billing for those customers who have multiple sites.

We are helping customers **understand** their bills and **reduce billing queries** – in 2011/12 we made a **12% reduction** in the number of times our customers needed to call us about their bills.

Retail and commercial customers – we are working to introduce **new web self-serve functionality** during 2012/13. Customers will be offered paperless billing, billing and consumption histories, the ability to pay bills and to change account details online.

Agricultural customers - we have introduced a number of **Customer Liaison Officers** who have been visiting our agricultural non-domestic customers to engage them in understanding billing and payments. This has proved very successful and we will expand this role during 2012/13 to include other customer groups.

Customer contact

Substantial efforts have been made to **drive down call volumes**. We met our target of no more than **275,000** calls in 2011/12, receiving around 268,000 calls.

We achieved our 2011/12 targets on 'calls not abandoned', **99.15**% against a target of 99%, and 'calls not receiving an engaged tone', **100%** against a target of 99.90%.

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

Chairman visits Customer Contact Centre

NI Water Chair Seán Hogan with Kaelie Harrigan at our Customer Contact Centre

NI Water's Chairman, Sean Hogan, paid a visit to the organisation's Customer Contact Centre.

Seán Hogan, commented: *"The Customer Contact Centre is a vital communication channel for many of our customers. While callers to our Waterline number often have a positive experience, we recognise this was a side of the business that was totally overwhelmed last winter. Therefore, it was important to visit the centre, meet the staff and hear about the improvements that have been made for future major incidents."*

Minister visits Customer Contact Centre

DRD Minister Danny Kennedy visited the Customer Contact Centre to receive an update on the enhancements which have been made since last winter's water supply issues. The Minister also received a briefing on the Winter Campaign and met with members of staff.

Engaging with our customers

Customer surveys

Quarterly **independent market research** is carried out, through telephone surveys of 100 customers who have called us for any reason.

The surveys were completed in quarters 2 to 4, achieving an overall average score of **4.57 out of 5**. While the performance was **below the target** of 4.70, we saw an **improving trend** in 2011/12 with a quarter 4 score of 4.67.

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.

Winter Advice for Farmers

UFU Dairy Policy Committee Chairman Andrew Addison pictured with NI Water's Des Shields lagging animal drinking trough pipes

UFU Dairy Policy Committee Chairman Andrew Addison pictured with NI Water's Des Shields lagging pipework in the dairy

NI Water has joined forces with the Ulster Farmers Union to provide tips and advice on how farmers can protect their water supply over the winter period.

Over 60% of our non domestic customers are classified as farms, so it is a very important consumer group for us. Farms can also be among our most vulnerable group if they lose their water supply.

UFU President John Thompson said:

"Last winter we experienced some of the worst weather we had seen for decades and many farmers found themselves without water, facing extremely difficult circumstances. While farmers can't control the weather there are things we can do in order to prepare for it. I'd encourage farmers to take heed of Northern Ireland Water's advice and to do things such as lag pipes and install stop valves with the aim of minimising water difficulties this winter.

Prevention is better than cure and now is the perfect time to get sheds ready for the winter."

NI Water's Des Shields said:

"The effects of dealing with the aftermath of a burst pipe on a farm cannot be underestimated. Water is the single most important requirement for livestock.

On a dairy farm, livestock drinking water accounts for between 50% and 75% of the farm's water usage. It is therefore vital farmers have a clean constant supply of water."

Engaging with customer representatives

During 2011/12, we worked with CCNI to agree the review of **Codes of Practice** as well as further development of our customer care register.

New Codes of Practice

As part of NI Water's ongoing commitment to providing a high quality service to all its customers, the company has updated its Domestic Customer Charter and revised and extended its Codes of Practice. Developed in partnership with the Consumer Council and the Utility Regulator, the suite of leaflets set out the standards customers can expect across a variety of the services offered by the organisation.

The revised Domestic Customer Charter and extended Codes set out NI Water's commitments for key customer services including responding to contacts from customers, attending sewer flooding incidents, connecting to mains water and sewerage and emptying septic tanks. For example, if a customer experiences sewer flooding in their home and contacts NI Water, we now aim to respond within 4 hours of receiving the call.

The new Code of Practice on Billing and Metering for Non Domestic Customers aims to help non-domestic customers to understand the specific services we offer to that sector and the content and format of their bill.

Commenting on the revised Codes Liam Mulholland, Head of Customer Services, NI Water, explained: *"The revised and extended Codes of Practice and our Domestic Customer Charter are an important way of setting out our commitment to our customers and detailing the standards of service we aim to provide for the whole community.*

"NI Water is the sole provider of the most essential service in Northern Ireland. We are constantly working to improve our service and we are pleased to illustrate our commitments to our customers through this revised and extended range of Codes.

Jo Aston, the Director of Water at NIAUR, stated: *"The Regulator is pleased to approve the revised Codes of Practice and welcomes the updated commitments of the Customer Charter. We also commend NI Water and Consumer Council for their collaborative effort in developing the new Billing and Metering Code for Non-Domestic Customers. These codes not only include NI Water's commitment to its consumers, but provide useful information for the public should they have a leak, complaint or other problem. The Regulator is committed to monitoring delivery and incentivising service improvements. We therefore will consider future updating of these Codes to benefit consumers as the industry moves forward."*

The Consumer Council

Northern Ireland Water Welcomes CCNI Report

NI Water has welcomed the latest report from the Consumer Council (CCNI) "Tapping into Consumer Views on Water – Update Report".

The report, which was a follow up to one completed in 2009, examined how services delivered by NI Water have improved through the implementation of consumers' recommendations.

Liam Mulholland, Head of Customer Services explains: *"The initial report carried out by CCNI in 2009 gave us the chance to listen to what our customers had to say and enabled us to identify and implement ways we could improve our services. NI Water has dedicated a great deal of time and resources into carrying out actions identified in the report to address areas of concern.*

"Some improvements could be made immediately, while others have been dependent on capital investment and available resources. We believe where we have been able to make improvements we have done so. However, we are also aware there is still work to be done to provide everyone in Northern Ireland with the best possible water and wastewater services.

"We look forward to continuing this improvement working in partnership with CCNI and putting the customer at the heart of everything we do."

We will continue to work with CCNI throughout 2012/13, 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.

New partnerships going from strength to strength

NI Water held a forum for key representatives of organisations working on behalf of vulnerable groups in the community.

Organisations in attendance included, the British Red Cross, Western Health Trust; Southern Health Trust; Health and Social Care Board; CCNI; British Deaf Association; NIAUR; NIE; Age NI; and PSNI.

Sara Venning, NI Water's Director of Customer Service Delivery and chair of the event commented:

"During the freeze/thaw incident of last winter, NI Water forged some excellent relationships with a number of key organisations. These organisations proved invaluable in helping NI Water communicate with some of our most vulnerable customers.

"The purpose of the forum was to build on those relationships, discuss what worked well and what could be done to improve the service NI Water provides to customers. It was also an excellent vehicle to promote our Customer Care Register."

The event was a great success as it brought together a network of interested parties who have a responsibility to vulnerable customers. Any organization working with the community and are interested in joining NI Water's list of stakeholders can contact Graeme Smyth on **graeme.smyth@niwater.com**

Getting it right first time

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

Launch of vital 'Lag and Tag' message

Regional Development Minister, Danny Kennedy and NI Water's Director of Customer Service Delivery, Sara Venning, joined forces to highlight the need to begin preparations for winter.

NI Water has produced a bright tag for customers to loop around the stop valve in their premises. This will ensure they are aware of the location of their stop valve and it will be easily identifiable in the event of a burst pipe.

Minister Kennedy commented:

"We are all aware of the disruption and genuine hardship faced by many people last winter. With that in mind, now is the ideal time to look at what the agencies, including NI Water, are doing and what the public can also do to prepare for the winter ahead."

Sara Venning explained the importance of the tags:

Sara Venning with DRD Minister Danny Kennedy

"The stop valve tags are a perfect example of how NI Water can work with the public and local businesses to assist them in their winter preparations and highlights the role everyone needs to play to reduce the risk of disruption to water supplies. Simple steps such as lagging the pipes in your premises and locating your stop valve can be vital during a freezing winter."

A stop valve is used to shut off the flow of water in a pipe. Stop valve tags are available to customers by phoning the Waterline number 08457 440088 or emailing waterline@niwater.com

Customer complaints

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

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

We achieved the 10 day target response time for complaints with a performance of **99.27%** against the target of **98.5%.**

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

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

Compliance

Investing in our health, environment and local economy

Owenkillen River, Newtownstewart, Co Tyrone

Looking after our water sources

Water resources

We operate around **30 water sources**[13] which comprise upland impounding **reservoirs, boreholes, rivers and loughs**.

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

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

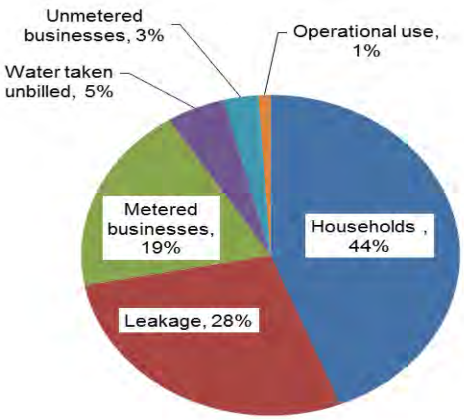
Households across Northern Ireland use around 155 litres per day. A **1% reduction** in **household demand** could reduce annual demand by around 2.6 million litres per day.

Managing demand for water

Our Water Demand Management Strategy is focussed on **reducing water** taken from the **environment** by managing, **leakage** and **consumption**. The chart[14] below shows the demand for the 584 million litres of water put into our network each day.

We have introduced **rain water harvesting** as part of a recent refurbishment to one of our offices. The water collected is used to **flush the toilets**.

Sources of demand for our water.



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

[13] In addition there are a further four sources operated on behalf of NI Water by a PPP contractor.
[14] Breakdown of water demand from NI Water's 2010 Water Resource Management Plan.

Improving our water quality

Drinking water quality levels

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

The 2011[15] compliance levels for drinking water at the customer tap are at **some of their highest levels**, with a Mean Zonal Compliance (MZC) of 99.80%.

The compliance for 2011 was marginally below that for 2010 (99.81%), primarily due to additional compliance requirements covering taste and odour[16], but **exceeds the requirement of the DRD's Social and Environmental Guidance** of 99.7%.

Find out more about drinking water quality:

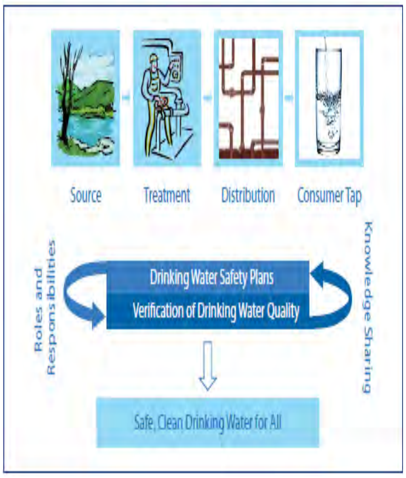
See the latest drinking water quality reports at:

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

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

Drinking water safety plans

We use Drinking Water Safety Plan's (DWSP) to proactively highlight investment needs for those water supply systems which are likely to fail any parameters, including taste and odour.



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

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

[15] This target is measured on a calendar year basis.
[16] The regulatory limits for taste and odour were reduced by regulatory amendment in 2010 and therefore affected the 2011 outturn. The effect was minimised by improved drinking water quality, in real terms.

Analytical services

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

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

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

www.niwater.com/analyticalservices.asp

Analytical Services UKAS Accreditation

During the first week of March this year, the United Kingdom Accreditation Service (UKAS) staff visited both Analytical Services Laboratories in Westland and Altnagelvin.

The assessment team carried out surveillance visits on both sites, which are designed to assess the ongoing compliance and competence of NI Water Analytical Services, and also taking into account the requirements of ISO17025:2005, DWTS, our own quality systems and all relevant UKAS documents.

The assessors commented on the high quality of data produced by Analytical Services. They also commended the Quality managers for maintaining the quality systems to such a high standard.

UKAS also noted that staff showed a sound technical knowledge of their work, which, in turn, is demonstrated in our success when using External Proficiency Schemes as well as internal quality controls.

Members of staff at both sites have been proactive in identifying potential quality improvements. Many of these initiatives were carried out by staff as part of their personal development.

The UKAS team thanked all staff for their help and assistance during the visits to both sites and congratulated them on achieving and maintaining a very high standard.

Treating our wastewater

Wastewater services

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

Our wastewater compliance is the **highest ever seen in Northern Ireland**, having continually improved over the last 6 years.

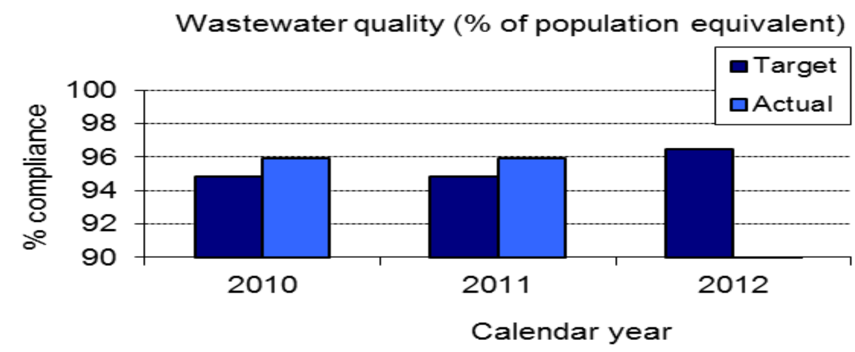
We are working to promote **storm water separation** which allows surface water to be discharged to watercourses and the sea without having to pass through one of our wastewater treatment works.

We are working with the WWF RIPPLE (Rivers Involving People, Places and Leading by Example) Project which helps manage and conserve the Ballinderry River.

http://ni.wwf.org.uk/what_we_do/press_centre/?3040/Ballinderry-Community-Take-Action

Wastewater quality

We **achieved the targets** for the calendar year 2011[17] of 85.83% of works complying with wastewater treatment standards and the target of 94.83% of the population served by compliant wastewater treatment works.



[17] 2012 actual performance not yet available as measured on a calendar year basis.

Improving our bathing waters

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

Bathing water quality is monitored by the NIEA under the European Bathing Water Directive.

Find out about the revised Bathing Water Directive:

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

Bathing Water Quality Results

NI Water has welcomed the 2011 Bathing Water Quality results, which show that all 24 beaches have met the required EC's Bathing Water Directive standard.

The Northern Ireland Environment Agency (NIEA) recorded the results from June to mid September at 24 bathing waters. Out of those tested, 20 received an excellent rating and 4 received a good rating.

Angela Halpenny, Head of Environmental Regulation at NI Water, explains further,

"We are pleased that all 24 bathing waters tested passed the mandatory requirements, with 20 reaching the top mark of excellent, particularly considering the impact of the wet summer.

However, while these results demonstrate our investment in wastewater systems is making a difference, we must continue to push forward with further investment to ensure continued improvements are made.

"The Ballyholme area has seen a £4.5 million investment which will help improve the Ballyholme bathing waters. A major £6 million investment in the sewer network in the Bangor area which includes upgrades to the storm system is also ongoing. Newcastle is also receiving a major investment boost of over £7 million by NI Water. The sewer network is currently being upgraded while the Wastewater Treatment Works is undergoing a major expansion, scheduled to be completed in spring 2013."

Reducing our pollution incidents

NI Water recognises the damage that can be caused to our environment through water pollution incidents. **We are committed to reducing the number of our pollution incidents** over the PC10 period through our **Pollution Mitigation and Reduction Strategy**.

There were **44** high and medium severity pollution incidents in 2011, against a target of **no more than 51**. The target for 2012 is no more than 48 pollution incidents.

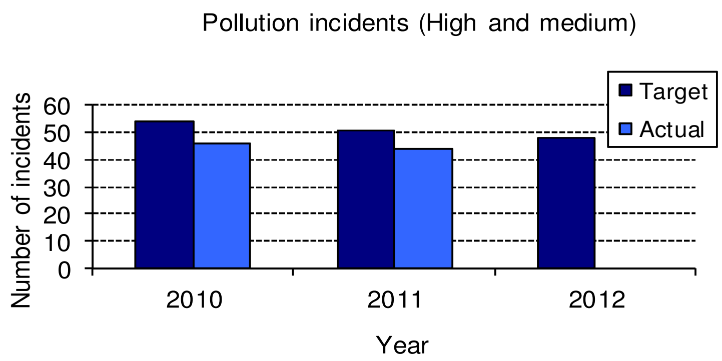
We hold Pollution Prevention Control (PPC) permits for 31 wastewater and water treatment sites to regulate sludge thickening and dewatering activities. The main focus now is on complying with odour conditions set for each site. Other waste activities within the organisation are managed through waste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

Pollution incidents have been **reduced** by over **4%** from 2010.

By specifying and adopting appropriately engineered **Sustainable Drainage System** (SuDS) solutions we can **reduce the storm flows** in to our sewerage systems and **reduce the discharges** caused by storm events.

We have completed **Drainage Area Studies** on 90 of the 109 relevant sewerage networks. The studies will assist in **prioritising investment to reduce pollution incidents** from our sewer network.

During the PC10 period, NI Water will work towards completion of Drainage Area Studies that have not previously been undertaken based on the environmental priority determined by the NIEA and agreed through the Price Control process.



Investing in our water and wastewater infrastructure

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

Some **£192m**[18] of capital investment was delivered during 2011/12.

Around **44%** of the capital investment in 2011/12 was targeted at water projects while **56%** was targeted at wastewater projects.

Based on a split of the £192m of capital investment.

Completion of £17m Castor Bay to Dungannon trunk main

Customers living in the North and West areas of Dungannon have been benefiting from a new water supply following the completion of the £17 million Castor Bay to Dungannon water trunk main.


Construction of the New Carland Service Reservoir & Water Pumping Station

The Altmore Water Treatment Works is coming out of operation and our customers in the North and West of Dungannon will be supplied from the Castor Bay Water Treatment Works via the new £17 million Castor Bay to Dungannon water trunk main.

Work on the trunk main commenced in November 2009 and involved not only the construction of the main, but also the construction of new pumping stations and a service reservoir. This is good news for the community and will ensure that customers will benefit from increased security of supply and drinking water quality.

[18] Based on the capital expenditure in the Regulatory Capital Value. Excludes grants and contributions.

£18m filtered into rural wastewater treatment

NI Water has invested £18m into upgrading rural wastewater treatment systems in the first three years of the Rural Wastewater Investment Programme (RWwIP).

The dedicated rural project, which has been specifically developed by NI Water to upgrade wastewater treatment systems that serve populations of up to 250 people, has so far seen the refurbishment of 65 facilities, delivering environmental improvements and generating economic benefits in rural areas right across Northern Ireland.

From Donagheady (near Strabane) to Drumnaferry (in Magheralin) and from Myroe (outside Limavady) to Mullaghglass (in Newry), NI Water has designed and implemented bespoke state-of-the-art wastewater treatment systems to replace ageing filtration units and septic tanks which over the years have become increasingly ineffective.

Speaking about the scheme, NI Water 's Martin Gillen said:

"The Rural Wastewater Investment Programme was set up to tackle widespread refurbishment of some of the 900 small wastewater works that span the length and breadth of NI. The project is both complex and logistically challenging but the rewards are far-reaching in terms of environmental improvements. Each project represents a significant investment by NI Water to implement the latest technology available to raise the standard of wastewater treatment so that rural communities can benefit from improved air and river water quality."

£4m Duke Street Pumping Station Complete

NI Water has completed a major £4 million pumping station and pumping main in the Duke Street area of L'Derry.

This project represents part of an overall investment of £28 million in the city's wastewater infrastructure, which will facilitate planned and future development on both sides of the Foyle.

Regional Development Minister Danny Kennedy said: *"The completion of this project is excellent news for local people and for the environment.*
This £4million investment reduces the potential for 'out of sewer' flooding in the area. It will also improve the water quality in the River Foyle and will help meet Northern Ireland Environment Agency Standards."

The Mayor of Londonderry Alderman Maurice Devenney added: *"The council welcomes the completion of this scheme which will bring significant benefits to wastewater services in the area for customers and will allow for future growth in the city."*

Bill Gowdy, NI Water commented: *"The Duke Street Wastewater Pumping Station project is an excellent example of working in partnership with other agencies and the Council.*

Representatives from NI Water with Ald. Maurice Devenney and Minister Danny Kennedy MLA at the opening of the new pumping station

Congratulations to all the team involved for the enthusiasm and dedication they brought to this scheme."

Shearwater Consortium was the contractor for the project and Halcrow AECOM assisted NI Water as regional project managers for the scheme.

Plans for major upgrade to Newcastle Wastewater Treatment Works unveiled

NI Water's CEO Trevor Haslett with DRD Minister Danny Kennedy MLA at the launch of the Newcastle scheme

NI Water has unveiled its plans for a £7million upgrade to Newcastle Wastewater Treatment Works.

Work got underway in January 2012, and the improvements will see the installation of modern new treatment processes which will benefit the seaside town and meet future EU directives by May 2013.

The 18-month contract has been awarded to Saintfield-based civil engineering company, Dawson-Wam and Newry-based water treatment specialists, Ovivo Ireland, with project management support being provided by McAdam Design in Belfast.

Welcoming the project's imminent start, Danny Kennedy, Minister for Regional Development said: *"The award of this contract is good news for Northern Ireland on both an economic and environmental level. Not only will the bathing waters at Newcastle benefit from this major NI Water investment, but the local construction industry will also be given a welcome boost with this significant project."*

Trevor Haslett, NI Water's Chief Executive added: *"This £7million upgrade project represents a strong commitment by NI Water to improve the standard of treated effluent at Newcastle. The extensive programme of work supports the £6m package of infrastructure and network improvements already undertaken in the town and will ensure that the sewerage infrastructure in Newcastle operates in accordance with EU directives and NI Environment Agency treatment standards."*

Incorporated in the upgrade plans is a new extension to house a host of new treatment processes and a first-time stormwater storage facility. The existing wastewater treatment works will be fully refurbished and new equipment will be installed at the nearby Blackrock and Harbour Pumping Stations.

Investment planned for 2012/13

Around **£147m**[19] of capital investment is scheduled for delivery during 2012/13. As part of this investment it is planned to continue with improvements to the water main infrastructure in a number of areas throughout Northern Ireland. This is part of a three year programme of work to lay or replace at least **900km of water mains**.

The majority of this work will be completed using **trenchless or 'low dig' underground technology**, which is less disruptive for the local community and environmentally friendly, producing less waste material in the process.

[19] Per NI Water's 2012/13 budget. UK GAAP based in line with Final Determination.

Using innovation to improve performance

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

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

Over 2011/12, our research, development and innovation programme projects have included:

- testing and proving alternative communication protocols for use with our telemetry system, reducing future costs;
- piloting the use of **improved accuracy inlet flow measurement devices** at wastewater treatment works to improve control and deliver compliance;
- installing automated sludge weighing systems at a number of works to monitor sludge and vehicle weights improving control and efficiency; and

We installed a Network Distribution Control System at key service reservoirs, allowing the demand from the upstream water treatment works to be smoothed, **improving drinking water quality and reducing costs.** This has proved to be a success and is to be progressively implemented across Northern Ireland.

We installed **intelligent locks** at over **2,200** wastewater treatment works and wastewater pumping stations as part of a site security access management system. This has improved security and reduced costs.

We worked with the Royal Society for the Protection of Birds (RSPB) to develop a strategy for **blanket bog restoration** on the Garron Plateau in County Antrim. This is now being implemented and will improve the quality of raw water, **reducing treatment costs**, whilst also **protecting** an important habitat for wildlife.

- participating in an EU INTERREG IVA Project – ANSWER using **willows to develop low carbon and environmentally sustainable solutions** for dealing with organic waste.

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

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

Find out about our research partners:

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

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

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

Reducing our carbon footprint

Our water industry is vulnerable to the impacts of climate change in the form of **water scarcity** and **flooding**. However, considerable uncertainty exists as to their extent and timing.

Adapting to climate change

Our **2012 Water Resource Management Plan** has considered the effect of climate change on our ability to supply water during periods of increased demand, typically experienced during warmer weather. For example, we have completed a **£600k** project to **protect Killyhevlin water treatment works** from increased flood levels in the Lough Erne system.

Mitigating our impact

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

The following are examples of the activities being undertaken:

- operation of **four hydro-electric power** generation plants;
- **reducing the energy used in aeration** at wastewater treatment works through installation of improved controls and air distribution systems;

Our **Climate Change Forum** coordinates the approach to climate change across the business including identifying **investment requirements**.

We are one of the **largest users of electricity** in Northern Ireland spending around **£30m** per annum, of which around **50%** is used to pump water and wastewater.

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

In 2011/12, **around 16%** of NI Water's electricity consumption came from renewable sources. The Strategic Energy Framework is targeting that **40%** of Northern Ireland's electricity consumption to come from renewable sources by **2020**.

- including the **cost of carbon** in NI Water's 'Capital Investment Appraisal System', which enables environmental impact to be more fully considered in the economic appraisal of capital investment projects;
- reducing the **energy used in pumping** through focused refurbishment and replacement of major pumps;
- piloting the use of wastewater final effluent to be used as a nutrient that will promote the growth of **biomass** (willows) for renewable energy heating;
- **optimisation** of usage of electricity, chemicals and fuels through more accurate measurement and definition of responsibility for usage; and
- inclusion of the **cost of carbon** in the calculation used to determine the **level of leakage** that NI Water should seek to achieve.

We have achieved the **'Carbon Trust Standard Accreditation'** and **reduced carbon emissions by 8.3%** (reduction metric relative to turnover). To achieve the standard, organisations must:

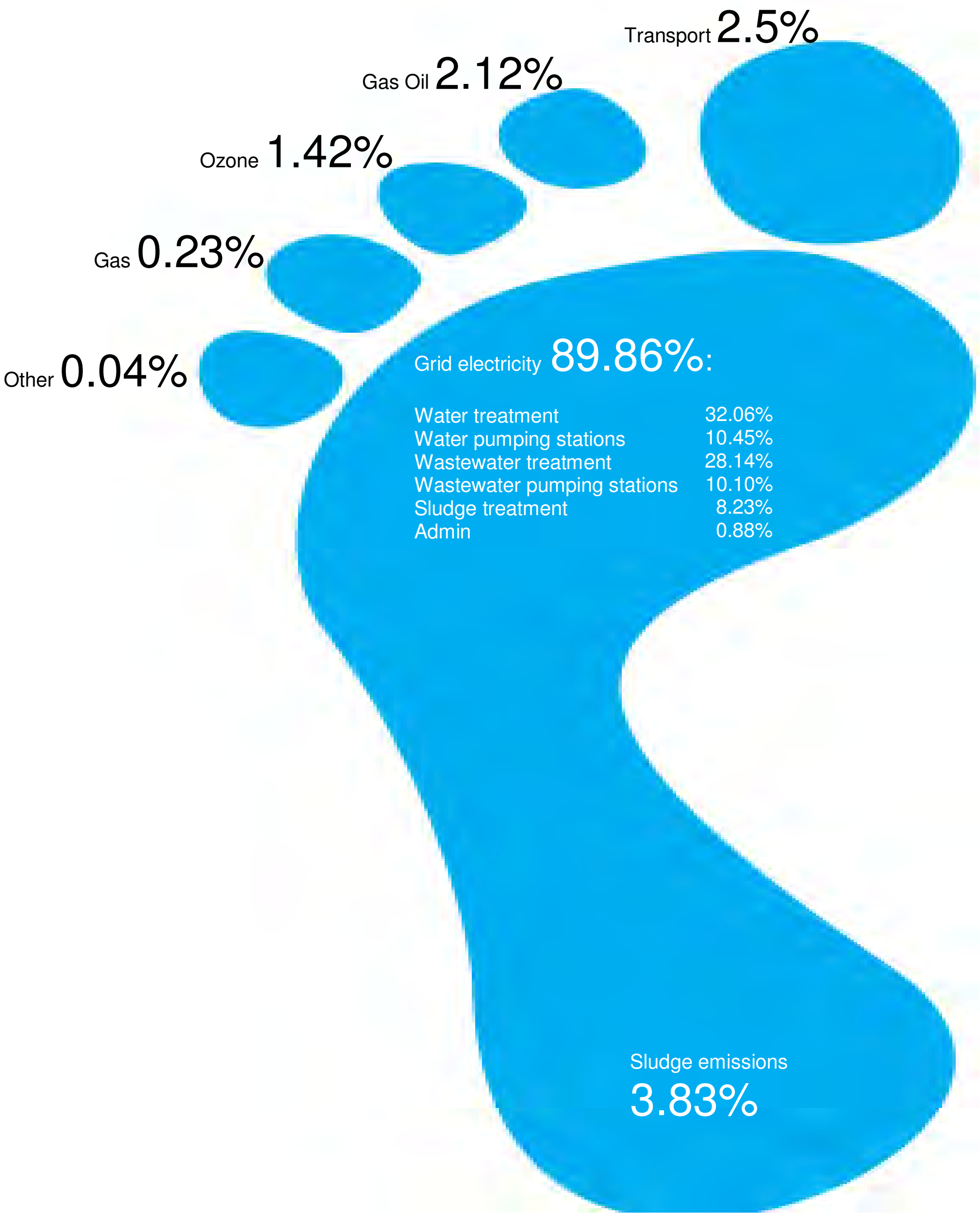
- measure their carbon footprint;
- meet an absolute reduction in emissions; and
- demonstrate that it is managing carbon in an appropriate manner.

CARBON TRUST STANDARD
REDUCING CO2 YEAR ON YEAR

Hydro-electric power plant at Fofanny Water Treatment Works, Mourne Mountains, County Down.

Our carbon footprint[20]

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



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

Environmental management

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

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

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

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

What is biodiversity?

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

Our sites include:

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

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

RSPB

WOODLAND TRUST

MOURNE HERITAGE TRUST

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

IEMA Lead Environmental Auditor Award

Dymphna Gallagher Quality & Compliance Manager presents the IEMA Lead Environmental Auditor Award to Andrew McConville from the Environmental Management System (EMS) team based at the Seagoe Office in Portadown.

Andrew received the award following a period of study in Dublin in early December 2011 and the successful completion of the final exam.

Andrew paid tribute to all the staff in NI Water who have consistently worked over the past number of years to ensure that EMS remains a great success throughout the entire organisation.

People

building the capability to deliver

Creating a high performance culture

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

Our employees are encouraged and supported in gaining a **range of qualifications** which assist in delivering a **better service to our customers**.

Building talent

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

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

Finance and Regulation celebrate exam success

Ronan Larkin (Director of Finance and Regulation) with employees celebrating exam success

The first employees from the Trainee Accountant Scheme which began in 2006 have completed their final professional exams. Three of the employees have also gained their full membership status from their respective accountancy bodies so are now fully qualified accountants.

The employees studied for their professional qualification with The Association of Chartered Certified Accountants (ACCA) and The Chartered Institute of Management Accountants (CIMA).

Two of the students achieved world rankings on some of their papers for the high exam results. NI Water holds Platinum Approved Employer status with ACCA in recognition of the development of the trainee scheme.

One of our existing qualified accountants completed the Chartered Institute of Taxation exams while another has gained a distinction in the Diploma in Forensic Accounting from Chartered Accountants Ireland.

Analytical Services Trainee Success

In September 2008, Analytical Services recruited two trainees who are based in our two Laboratories. They are currently undertaking a foundation degree in Analytical Science with the Open University as part of the Earn and Learn initiative championed by Analytical Services; the Degree is specifically tailored for the water industry.

A Scientific Officer also enrolled in this course. All three have now completed the level 1 components of the degree which included a work based learning module. This involved an in-depth look into the laboratory's working structures and Quality System, and it required all three analysts to be mentored, in house, by their managers.

In September 2010 a third Trainee was recruited and has successfully completed the first component of the course.

The introduction of the trainee program within Analytical Services aims to provide new staff with a greater knowledge and wider skills base while also encouraging the individual's development. NI Water Analytical Services is an accredited service, audited by UKAS, the Drinking Water Inspectorate and NI Environment Agency, and therefore must comply with the Competent Analyst Framework – this course is an integral part of demonstrating compliance with the framework and developing staff to achieve their potential.

Completion of the first stages of the OU Foundation Degree demonstrates commitment and dedication on the part of our Trainees and their Mentors.

Chartered Environmental Status Achieved

This summer brought about a very special occasion for a number of Northern Ireland Water staff, when they achieved Chartered Environmentalist status, facilitated through the Institute of Water.

What made the occasion even more special was that they are all based in the same Asset Management Directorate within the company.

The combination of individual determination, peer competition, and support from both the company and the Institute of Water, ensured all-round success.

Their success will ensure increasing awareness and continuing support for environmental initiatives.

Given the ageing nature of our workforce, we continue to recruit apprentices to resource talent for the future and support them in their career development.

Apprenticeship Programme

In January 2009, 20 employees (10 new and 10 existing staff) commenced NI Water's first apprenticeship programme. Funded by Department for Employment and Learning (DEL) and in conjunction with Watertrain/ Bolton College and EU skills, NI Water established the programme to help address both current and future skills and workforce planning needs.

The twenty apprentices embarked on a two year programme - completing in July 2011. It comprised both classroom based and 'on the job' learning, closely aligned to the new EU Skills Water technical framework. The apprentices came from 3 core disciplines, Wastewater Treatment, Networks Sewerage and Leakage. Each apprentice successfully completed their required qualifications which included:

- The City and Guilds level 3 Diploma in Water Engineering
- The CABWI level 2 NVQ for their job role.
- The CABWI level 3 NVQ for their job role
- Essential Skills in Maths and English

NI Water ensured that all the learning and development undertaken was relevant to the needs of the apprentices increasing their competence and developing required behaviours. NI Water set clear learning outcomes and constantly reviewed the progress of all the apprentices to ensure:

- A higher standard and broader range of technical competence;
- The transfer of learning to the workplace;
- The harnessing of learning opportunities in the workplace;
- Self confident, safe, problem solving, efficient and effective apprentices who took responsibility for their own learning.

William Love, Learning & Development Partner at Antrim Learning and Development Centre (LDC) said: *"I'm happy to report that all 20 Apprentices successfully completed the programme. I would like to express my appreciation to them for all their hard work as well as my congratulations. I would also like to thank their line managers for their support both to the apprentices and to the team in the Learning and Development Centre."*

The NI Water apprentices with Charlie Davison, Trevor Haslett, Sara Venning and William Love at Antrim LDC

Engaging employees

Making our goals a reality depends on the commitment and expertise of our employees. We are determined to ensure that NI Water becomes a great place to work. We conduct an annual employee survey in order to assess employee engagement levels across the organisation. We made progress from last year and achieved a **63%** response rate in 2011/12.

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

Everyone has a role to play in making a difference and we are always keen to hear ideas and receive feedback through our **CEO and employee workshops** which are held at various locations across the Company.

We took part in the **'Great Place to Work' survey**. The survey is run by an independent body and allows us to develop a benchmarking approach against other organisations.

The Executive Committee is working in partnership with employees to develop a **Corporate Action Plan** to address the areas raised by the survey. This will be supported via our **employee communication channels** which include our 'Source' intranet portal; our award winning in house magazine 'Waterline'; our weekly employee briefings via 'In touch' and 'In Brief'; and Executive Committee visits.

Creating a safe working environment

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

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

One of our **key performance indicators** in this area is to reduce the number of RIDDOR[21] accidents.

We are always striving for **continuous improvement** across all aspects of health and safety, with one such initiative being our **'Working S.A.F.E.R' campaign** which focuses on delivering a safety culture through effective safety behaviours.

We have a **zero accident ambition**.

We **surpassed** our 2011/12 Health and Safety KPI target of not more than 9 RIDDOR accidents, with **4 RIDDOR accidents** incurred. The Health and Safety KPI target for 2012/13 has been set at not more than 8 RIDDOR accidents.

We received the **ROSPA Gold Award in 2011** when we achieved our best performance record of 3.03 RIDDOR incidents per 1,000 employees.

We will continue our focus on health and safety regulation, leadership and behaviour led initiatives in 2012/13.

[21] Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (Northern Ireland) 1997. RIDDOR accidents are those with more than 3 days absence associated and which require to be reported to the HSENI.

Cash

…creating value for money through a sustainable service

Representatives from NI Water with Ald. Maurice Devenney and Minister Danny Kennedy MLA at the opening of a new pumping station at the Duke Street area of L'Derry.

Introduction

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

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

Page 106
Read our Statutory Accounts.

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

Page 166
Read our Regulatory Accounts.

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

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

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

Financial performance (Statutory Accounts)

Statement of Comprehensive Income

Our Statement of Comprehensive Income as presented on page 108 is summarised below.

Summary Statement of Comprehensive Income

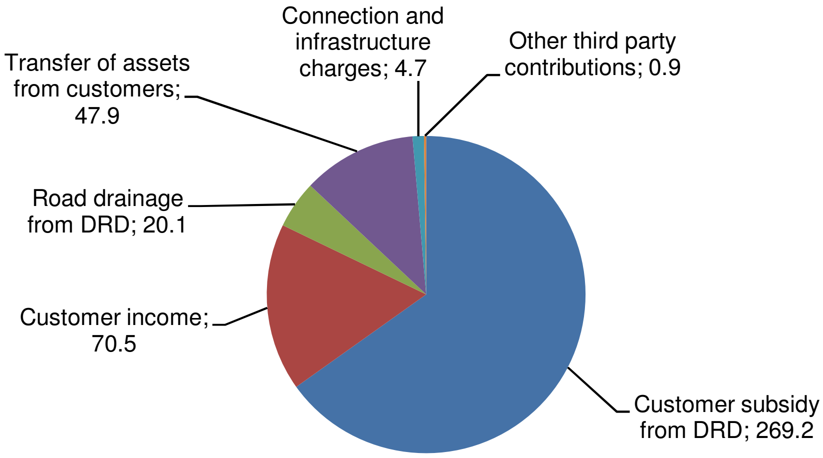
	Year to 31 March 2012 (£m)	Year to 31 March 2011 (£m)
Revenue	**413.3**	403.2
Results from operating activities	**192.0**	168.4
Net finance charges	**(58.6)**	(56.2)
Profit before tax	**133.4**	112.2
Taxation	**(18.8)**	(31.7)
Profit after tax	**114.6**	80.5
Other comprehensive income	**1.4**	1.1
Total comprehensive income	**116.0**	81.6

Income

Revenue was **£413.3m** for the year to 31 March 2012 (2011: £403.2m). Included in revenue was £289.3m (2011: £283.1m) received from the DRD (Subsidy £269.2m; Road Drainage Charges £20.1m) - the remainder being measured and unmeasured charges, transfers of assets from customers, connection / infrastructure charges and other third party contributions.

The **customer subsidy** covered the full domestic charge and this arrangement will remain in place in 2012/13. In its Programme for Government (PfG), published in March 2012, the Executive gave a commitment that **no new household charges** would be **introduced during the PfG period (2011-15)**.

Sources of income 2011/12 (£m)



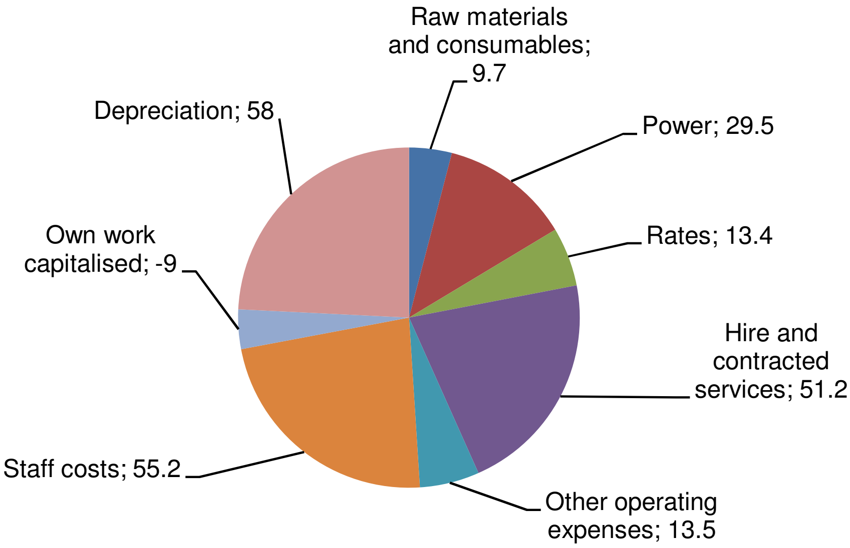
Operating activities

Operating expenses in 2011/12 of **£221.5m** (2011: £234.8m) were reduced from last year as a result of the continued focus to drive through efficiencies. This can be seen in the lower costs for staffing, power, hire and contracted services and other expenses, offset in part by an increase in rates.

NI Water is one of the largest users of electricity in Northern Ireland. We spent around **£30m** on **electricity** in 2011/12, of which around 50% is used to pump water and wastewater.

Page 50
Read more about how we are becoming more energy efficient.

Operating expenses 2011/12 (£m)



Results from operating activities before interest for the year was **£192.0m** (2011: £168.4m).

NI Water's operational procurement team.

We are working to make our **procurement process** for goods and services as **simple** and **accessible** as possible.

We held a '**Supplier Day**' on 29 March 2012 to enable suppliers to learn more about our procurement requirements and the tender process in a one-to-one appointment with a member of our procurement team.

Finance income and costs

The net finance costs are primarily due to **interest** on our borrowings of **£38.2m** (2011: £34.9m) and **PPP liabilities** of **£21.7m** (2011 £22.2m) offset by income on our **financial assets** of **£7.4m** (2011: £6.6m).

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

Read more about our PPP schemes:
http://www.niwater.com/alphaproject.asp
http://www.niwater.com/projectomega.asp

Taxation

The **tax charge** for the year was **£18.8m** (2011: £31.7m). The effective tax rate for the year to 31 March 2012 was 14.1% (2011: 28.3%). The reduced tax charge was mainly due to a reduction in the rate of corporation tax from 26% to 24%.

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

Distributions

The Board will consider a proposal to declare a **dividend of £27m** in July 2012.

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

Capital structure

The Statement of Financial Position at 31 March 2012 as presented on page 107 is summarised below. **Total assets** increased by 8.6% to **£2,267.9m** (2011: £2,087.8m).

Our **net debt**[22] figure was **£1,034.6m** at 31 March 2012 (2011: £959.2m).

Gearing (the ratio of net debt to equity and liabilities) increased from 45.9% to 46.9%.

The **main movements** in the financial position items were increases in **property, plant and equipment** of **£164.5m** (2011: £154.7m) relating to our Capital Investment Programme offset by increases in net debt.

Page 44
Read more about our Capital Investment Programme.

[22] Refer to notes 18 and 20 in the Statutory Accounts. Net debt consists of loans of £807.6m (2011: £737.6m) and finance leases of £230.1m (2011: £237.5m) less cash and cash equivalents of £3.1m (2011: £15.9m).

Summary Statement of Financial Position

	At 31 March 2012 (£m)	At 31 March 2011 (£m)
Total non-current assets	**2,227.0**	2,039.6
Total current assets	**40.9**	48.2
Total Assets	**2,267.9**	2,087.8
Equity	**916.7**	826.6
Total non-current liabilities	1,212.8	1,131.4
Total current liabilities	138.4	129.8
Total liabilities	**1,351.2**	1,261.2
Total equity and liabilities at 31 March	**2,267.9**	2,087.8

Liquidity

Operating activities generated a net cash inflow of **£200.5m** (2011: £173.3m). Net cash outflows of **£190.7m** (2011: £181.4m) related to investing activities. Net financing activities created a cash outflow of **£22.7m** (2011: inflow of £10.5m).

In order to meet the requirements of the above net outflow there was an increase in the financing requirement over the 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).

Pension funding

The pension scheme had a surplus value of £9.5m at 31 March 2012 (2011: £6.2m). This was made up of a total market value of assets of £130.2m (2011: £113.3m) less actuarial value of liabilities £120.7m (2011: £107.1m).

Investing activities included the acquisition of **property, plant and equipment** of **£191.1m** (2011: £181.9m), proceeds from the sale of property, plant and equipment of £0.3m (2011: £0.3m) and interest received of £0.1m (2011: £0.2m).

Dividends paid to the DRD during the year totalled **£26m** in respect of the previous financial year.

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

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

Financial performance (Regulatory Accounts)

Overview

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

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

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

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

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

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

Non appointed business activities generated **£5.0m of income** (2011: £4.5m) resulting in a retained profit after deducting associated costs, of £0.8m (2011: £0.7m).

Regulatory Capital Value (RCV)

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

The return on the RCV is one of the **building blocks** used to calculate customers' bills.

Page 17
Read more about setting customers' bills.

The RCV is increased each year by new investment and reduced by the amount of the asset base which has been used up in the year.

Regulatory Capital value (RCV)

	At 31 March 2012 (£m)	At 31 March 2011 (£m)
Revised opening balance at 1 April	**1,622.1**	1,493.0
Capital expenditure	**151.2**	131.1
Infrastructure renewals expenditure	**35.8**	24.9
Infrastructure renewals charge	**(30.1)**	(29.4)
Grants and contributions	**(0.6)**	(1.1)
Depreciation (adjusted for broad equivalence)	**(53.6)**	(36.2)
Closing balance at 31 March	**1,724.8**	1,582.3
Average RCV	**1,673.4**	1,537.7

Differences from the Statutory Accounts

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

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

Page 171
Read more about the reconciliation between the Statutory and Regulatory Accounts.

The treatment of asset transfers from customers as income under IFRS created a **'boost' to statutory profits** of **£53.6m** (2011: £52.9m).

Infrastructure assets are **mainly underground systems** of mains and sewers, impounding and pumped raw storage reservoirs, dams, sludge pipelines and sea outfalls.

Page 179
Read more about infrastructure renewals accounting.

Atypical operating expenditure items

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

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

Atypical and re-organisational operating expenditure items

	Year to 31 March 2012 (£m)	Year to 31 March 2011 (£m)
Business improvement programme	**1.5**	2.0
Voluntary Early Retirement / Voluntary Severance schemes	**2.9**	2.6
Freeze / thaw in 2010/11	**(2.2)**	5.1
Total	**2.2**	9.7

Efficiencies

Our focus on controlling operating expenditure and working more efficiently contributed towards **operating cost efficiencies** of around **£12m** in 2011/12. We are targeting further operating cost efficiencies of £6m in 2012/13.

Mobile work management technology is helping to generate operating cost efficiencies.

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

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

See the latest Cost and Performance Report on NI Water at:
http://www.uregni.gov.uk/uploads/publications/Costs_and_Performance_report_2010-11.pdf

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

Cares Challenge

Our employer supported 'Cares Challenge' programme was introduced in 2011/12 and enables employees to **volunteer** on a range of community projects. Local communities have benefitted from around **350 hours** of volunteering.

Programme launch at Forth River Primary School

Trevor Haslett along with his budding team of volunteers launched our 2012 'Cares Challenge' programme at Forth River Primary School in North Belfast helping them repair a pond and the fencing surrounding it. This was a task that took little time to complete, yet made a huge difference to the school who otherwise might not have had the time or money to do it.

Pages 23 to 70
Read about our work on corporate social responsibility within the customer, compliance, people and cash sections. See below for some areas of further work on corporate social responsibility.

Changing the way we think about water

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

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

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

During 2011/12 the Education Team visited over **7,800 school children**; 67 schools have had classroom based visits; and 48 schools have been visited by the Waterbus. In relation to our own NI Water based classrooms; 6 schools have visited our Silent Valley centre (in the Mourne Mountains) and 12 schools have visited our Heritage Centre in Duncrue Street, Belfast.

Find out more about our education programme:

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

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

We launched our **annual schools competition** with this year's theme 'water for health'.

Water Winners Receive Awards

Primary school pupils from across Northern Ireland headed to Lisburn Civic Centre on Wednesday 22 June 2011 to hear the results of NI Water's Schools Competition.

Deputy Mayor William Leathem, Ian Humpreys CEO Tidy NI, Jane Jackson, John McDermott, Eamon McKeevney, Trevor Haslett.

Competition was fierce, with nearly 2,000 entries received from schools throughout Northern Ireland. The children – all aged between 4 and 12 years - were challenged to create a picture or rap to illustrate how important it is to use water wisely and how small changes in our behaviour can help save this precious resource.

Budding rappers and future artists emerged through a collection of colourful, lively and inspiring entries. However, winners were chosen and 50 children from as far as Limavady, Cookstown and Enniskillen collected their finalist certificates from the Deputy Mayor of Lisburn William Leathem and Chief Executive, Trevor Haslett.

Working to protect our environment

We have been deemed a '**National Green Champion**' by the Green Organisation for its work on the **Rural Wastewater Investment Programme** – a project designed specifically by NI Water to upgrade small wastewater facilities in **65 communities** across Northern Ireland where the population is less than 250 people. The award was presented to NI Water as part of the 2011 Green Apple Environment Awards – a national campaign to find the greenest companies, councils and communities.

GREEN APPLE AWARD WINNER 2011

www.

http://www.thegreenorganisation.info/

NI Water picks up top environment award

Kirsty Moore, Paul Davison, Michael McAlary and Trevor Haslett celebrate the Green Apple Award

Supporting local communities

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

Business in the Community

Back row L-R, A Halpenny NI Water, G Nuttall (WWF), P Laine (WWF), E Keaveney (Business in the Community. Front row L-R, R N McGarry (Ikea), P Carson (Coca Cola), Zoe Cunningham (Coca Cola)

Angela Halpenny, Head of Environmental Regulation, was a guest speaker at a seminar organised by the ARENA network, the environmental arm of Business in the Community, in partnership with WWF.

The theme of the seminar was "Doing Business with Sustainable Water Management". The presentation focused on the sustainability challenges faced by NI Water, whilst ensuring we deliver our drinking water and wastewater compliance targets.

There was an opportunity to highlight areas for improvement in water management practices that will be of benefit to the environment and make economic sense.

The seminar was attended by representatives from a wide range of business sectors, who gained practical information about how to integrate water stewardship into their business operations.

NI Water participates in the Business in the Community **'Time to Read / Time to Count' Scheme** in conjunction with local primary schools. By spending a small amount of time with a child in a local school, our employees are helping the school children to develop an interest in reading or numbers. A total of **12 volunteers** have been trained and have attended local primary schools, assisting **24 school children**.

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

Supporting local charities

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

NI Water team get to work at the NI Hospice

"Off to work we go!" (L-R): Gary Curran NI Water, Gerard McGirr Farrans Construction, and Adrian Dixon Lagan Construction get to work on the hospice grounds and present Ellen Hillen from the NI Hospice with a donation of £1000.

The project team working on NI Water's Water Mains Rehabilitation Programme undertook some voluntary work at the Northern Ireland Children's Hospice in Glengormley.

The team got to work on the 5 acre site with the busy task of landscaping, weeding, and creating a new "Sensory Garden" with a wide variety of plants and herbs in the grounds of the Children's Hospice. The team also donated much needed funds and contractors Farrans and Lagan Construction presented the hospice with a donation of £1000.

Receiving the cheque Ellen Hillen, Corporate & Trust Fundraiser said "We are indebted to our corporate supporters for the voluntary and financial support they give to Hospice.

Families often tell us that it is the time we give and the understanding of the situation they find themselves in that makes Hospice special and at Hospice we hope to be able to make this difference to as many life limited children and their families as is possible".

Gary Curran, NI Water Project Sponsor said: *"We are delighted to assist with such an important cause and look forward to working with the hospice on other future projects."*

Trevor Haslett
Chief Executive
27 June 2012

GOVERNANCE

Fofanny Water Treatment Works in the Mourne Mountains, Co Down.

Directors' report

The Directors present their report and the audited financial statements of Northern Ireland Water Limited for the year ended 31 March 2012.

Principal activities

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

The Company is domiciled and incorporated in Northern Ireland. The Registered Number is NI054463 and the Registered Office is: Westland House, 40 Old Westland Road, Belfast, BT14 6TE. The Company is wholly owned by the 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 2012, 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 Business Review:

- review of results (refer to pages 1 to 10);
- operational performance (refer to pages 23 to 60);
- financial performance (refer to pages 61 to 70);
- key performance Indicators (refer to page 13);
- corporate social responsibility (refer to pages 71 to 76);
- risks and uncertainties (refer to page 14); and
- financial risk management objectives and policies (refer to pages 124 to 127).

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 £27m for the year ended 31 March 2012 (2011: £26m[23]) will be approved by the Shareholder upon the recommendation of the Board in July 2012 and paid in August 2012 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2012.

[23] This dividend in respect of the year ended 31 March 2011 was paid in August 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*. Seán is responsible for ensuring the Board works effectively. Seán chairs the Nomination and Remuneration Committee and the Corporate Social Responsibility Committee, and is also a member of the Audit Committee.
- *Donald Price, Non-Executive Director*. Donald is Chair of the Audit Committee and is a member of the Nomination and Remuneration Committee.
- *Kevin Steele, Non-Executive Director*. Kevin is Chair of the Procurement Committee and was a member of the Audit Committee until 22 August 2011. Kevin was appointed as the Senior Independent Director on 27 October 2011.
- *Deep Sagar, Non-Executive Director* (appointed on 22 August 2011). Deep is a member of the Procurement Committee.
- *John Rae, Non-Executive Director (*appointed on 22 August 2011*).* John is a member of the Risk Committee and the Corporate Social Responsibility Committee.
- *Jim Stewart, CBE, Non-Executive Director* (appointed on 22 August 2011). Jim is Chair of the Risk Committee and a member of the Audit Committee.

Current Executive Directors:

- *Trevor Haslett, Executive Director - Chief Executive*. Trevor is responsible for the executive management of all of the Company's business and for implementing Board strategy.
- *Ronan Larkin, Executive Director - Director of Finance and Economic Regulation*. Ronan is responsible for the financial direction and economic regulation of the Company and the relationship with the Utility Regulator.
- *Sara Venning, Executive Director - Director of Customer Service Delivery*. Sara is responsible for the supply and distribution of clean water, the removal and treatment of wastewater and all aspects of customer service delivery.
- *George Butler, Executive Director - Director of Asset Management*. George is responsible for Health and Safety, Scientific Services, Asset Management and for liaising with the environmental regulator. George is also a Chairman of NI Water Pension Trust Company and a Director of the UK Water Industry Research Company (UK WIR).

Former Non-Executive Directors:

- *Peter Bunting, Non-Executive Director* (ceased to be Non-Executive Director with effect from 22 August 2011).
- *Lawson McDonald, Non-Executive Director* (ceased to be Non-Executive Director with effect from 22 August 2011).

Further details on our Board and organisational structure can be found at:

www.

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

Directors' remuneration and annual bonus plan

Remuneration for Executive Directors comprises: base salary, a discretionary annual bonus plan and pension entitlements. There was no bonus scheme in place for 2011/12. 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 99 to 104 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 2012, was 30.1 days (2011: 32.2 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 2012 this stood at 13.1 days (2011: 14.8 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 2011/12 (2011: £0.4m) (refer to note 2(d)(i) to the financial statements for the accounting treatment).

Employees

The Company utilises a number of communication channels to keep its employees involved in the Company's affairs and appraised on the Company's performance. These channels include the 'Source' intranet portal; an award winning in house magazine 'Waterline'; weekly employee briefings via 'In touch' and 'In Brief'; and Executive Committee visits. The Company is also committed to positive engagement with the Trade Unions.

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

Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2012, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the Company in order that the purposes of a special administration order could be achieved if such an order were made.

Regulation - 'cross directorships'

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

Health and safety

Health and Safety matters are addressed on page 60.

Corporate social responsibility

Corporate Social Responsibility matters are addressed on pages 71 to 76.

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
27 June 2012

Corporate Governance

Compliance statement

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

The Board considers that, during the year and up to the date of this report, it has complied with the main principles of corporate governance that applies to NI Water. The Board has taken into consideration the governance arrangements established between NI Water and the DRD through the Shareholder relationship and the relevant governance provisions in the Department of Finance and Personnel's (DFP) guidance entitled 'Managing Public Money Northern Ireland' (MPMNI). As such, some areas of the UK Corporate Governance Code are not deemed appropriate to NI Water's circumstances.

The Company has signed a Management Statement and Finance Memorandum (MSFM) with the DRD and the DFP which came into effect on 1 April 2012. The MSFM replaced the Shareholder Governance Letters. It is anticipated that the implementation of MSFM should provide further clarity and accountability to our stakeholders.

UK Corporate Governance Code

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

- the remuneration of the Chairman is determined by the Shareholder, not the Nomination and Remuneration Committee;
- there is no requirement for retirement by rotation and re-appointment of Directors under the Company's Articles of Association. As such, the Directors are not subject to re-election at intervals of no more than three years;
- there was no bonus scheme in 2011/12 for Executive Directors reflecting the public expenditure constraints. This restricts the proportion of the Executive Directors' remuneration which is linked to corporate and individual performance; and
- there is no requirement to hold an Annual General Meeting.

Due to the change in Board members during August 2011, the Company considers that it does not adhere in full to the following provision of the UK Corporate Governance Code:

- the Board did not undertake a review of its own performance in 2011/12. The Audit Committee was the only Committee to undertake a review of its performance in 2011/12. It is the Board's intention that annual reviews of the Board's own performance and that of all its Committees will recommence in 2012/13.

Board structure

Trevor Haslett was acting as Interim Chief Executive until 1 November 2011, when he was appointed as Chief Executive. Lawson McDonald and Peter Bunting ceased to be Non-Executive Directors with effect from 22 August 2011. Deep Sagar, John Rae and Jim Stewart, CBE were appointed as Non-Executive Directors on 22 August 2011.

The Chairman and the other Non-Executive Directors are appointed by the DRD Minister.

The Board has reviewed the status of the Non-Executive Directors over the year and considered them to be independent in character and judgment. The Non-Executive Directors contribute external expertise and experience in areas of importance to the Company such as corporate governance, financial management, corporate, 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.

Directors and their interests

The names of the Directors currently serving on the Board are set out on page 79 and 84. 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 within the policy and resources framework determined by the Minister and the DRD, overseeing the Company's internal control systems and risk management and ensuring that appropriate resources are in place to enable the Company to meet its objectives. The Board meets at least 11 times in each calendar year and convenes additional meetings as and when required.

Details of the number of Board meetings, Board Sub-Committee meetings and the attendance of the Directors at those meetings are shown on page 88. The Chairman has responsibility for the effective workings of the Board and agrees the agenda in consultation with the Company Secretary. Papers, including minutes of Board committees held since the previous Board meeting and reports, are circulated in advance of each meeting. The Senior Independent Director acts as a 'sounding board' for the Chairman and fulfils an intermediary function for other Directors if required. The Senior Independent Director is also available to address any concerns of the Shareholder which either have not been suitably addressed, or are inappropriate to address, through the normal communication channels. The Chief Executive is responsible for the executive management of all of the Company's business and for implementing Board strategy and policy within approved budgets and time-scales.

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

Members of the Executive Committee:
Trevor Haslett* – Chief Executive;
Ronan Larkin* – Director of Finance and Regulation;
George Butler* – Director of Asset Management;
Sara Venning* – Director of Customer Service Delivery;
Mark Ellesmere – General Counsel and Company Secretary; and
Bill Gowdy – Interim Director of Engineering Procurement.

*Executive Director.

Further details on our Executive Committee can be found at:

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

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 Risk Committee, the Corporate Social Responsibility Committee, Remuneration and Nomination Committee, and the Procurement Committee (the Principal Committees) may be obtained on written request from the Company Secretary at the address given on the back cover of this report.

The membership of the Principal Committees is set out below:

Audit Committee

- Donald Price (Chair);
- Seán Hogan (from 23 January 2012);
- Jim Stewart, CBE (from 22 August 2011);
- Kevin Steele (until 22 August 2011); and
- Peter Bunting (until 22 August 2011).

Risk Committee[24]

- Jim Stewart, CBE (Chair) (from 30 September 2011); and
- John Rae (from 30 September 2011).

[24] The Risk Committee was formed in November 2011.

Nomination and Remuneration Committee

- Seán Hogan (Chair);
- Donald Price; and
- Peter Bunting (until 22 August 2011).

Procurement Committee

- Kevin Steele (Chair);
- Deep Sagar (from 22 August 2011); and
- Lawson McDonald (until 22 August 2011).

Corporate Social Responsibility Committee

- Seán Hogan (Chair from 22 August 2011);
- John Rae (from 22 August 2011); and
- Lawson McDonald (Chair until 22 August 2011).

Audit Committee

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

The Audit Committee reviews fraud, theft, bribery and other irregularities and also reports of whistle blowing cases that deal with allegations 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 areas of further improvement for the Board's consideration.

Donald Price, the Chair of the Audit Committee has recent and relevant financial experience. Donald is a Non-Executive Director of the Northern Ireland Tourist Board and was a Non-Executive Director of Northern Bank Ltd (including various subsidiaries) until June 2011. Northern Bank is the principal banker for the Company. Kevin Steele chairs the Department of Education's Audit and Risk Management Committee. Jim Stewart, CBE is the Chair of Northern Health and Social Care Trust and Chair of Sentinus, a registered charity. Séan Hogan, Chair of the Board[25] became a member of the Audit Committee on 23 January 2012. Séan is Chair of the Agri-Food and Biosciences Institute. By invitation of the Committee other individuals such as the Company Secretary, Director of Finance and Regulation, Financial Controller, Head of Corporate Governance, Head of Internal Audit and the External Auditor will normally be in attendance for all or part of those meetings. Gary Fair, Director of the DRD's Shareholder Unit, is also invited to attend Audit Committee meetings.

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

The Audit Committee annually approves the level of the External Auditor's fees in respect of the audit of the Statutory and Regulatory Accounts of the Company, along with other financial

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

information returns to the Utility Regulator, considers the adequacy of the External Auditor's proposed audit plan, and reviews compliance with their 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 External Auditor. The Audit Committee reviews the policies for the non-audit services and the framework for the pre-approval of the provision of audit and non-audit services by the External Auditor.

Page 129
See note 7 to the Statutory Accounts for the fees relating to audit and non-audit services.

The Head of Internal Audit meets on a regular basis 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. A mid-year and year-end self-review of the effectiveness of the internal audit function was conducted during the year and this report was considered by the Audit Committee.

Risk Committee

The Board established the Risk Committee, a sub-committee of the Board in November 2011 in order to provide more time and attention to the oversight of NI Water's risk management framework and strategic risk management. The members of the Risk Committee consist of two Non-Executive Directors – Jim Stewart, CBE (Chair) and John Rae. John is a Water Operations Director at Scottish Water, a Board member of Scottish Water Solutions and a Board member of the Water Regulations Advisory Scheme Limited. By invitation of the Committee other individuals such as the Chief Executive, the Director of Customer Service Delivery, the Director of Finance and Regulation, the General Counsel and Company Secretary and the Head of Corporate Governance will normally be in attendance for all or part of those meetings.

The Committee meets on a quarterly basis and since its formation has reviewed the risk management policy, the strategic risk management towards the achievement of the Company's objectives, risk appetite, risk horizon scanning, benchmarking of risks, training and awareness and the management of actions to reduce the Company's risk exposure to an acceptable level.

The Risk Committee has reviewed strategic and operational risks and the Chair of the Risk Committee provides a report to the Board on a monthly basis on key matters of risk and assurance. A strategic risk management report is also included in the Chief Executive's report to the Board on a monthly basis. A joint meeting between the Risk Committee and Audit Committee was held to review the effectiveness of the Company's internal control and risk management framework and the Board was satisfied with the annual review provided by both Committees.

Nomination and Remuneration Committee

Only Independent Non-Executive Directors may serve on the Committee. The Chief Executive, Company Secretary, Head of Human Resources and other external advisers also attend the Nomination and Remuneration Committee meetings at the invitation of the Committee Chair. The Committee 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 99 to 104. 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

The Procurement Committee meets at least four times a year. The Committee was chaired by Kevin Steele, an 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.

Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee is a sub-committee of the Board. 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 Social Responsibility Strategy; to promote the importance of corporate reputation; and to propose and agree targets for work within these areas.

Directors' interests in contracts

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

Remuneration

The Directors' remuneration report, which includes a statement on the Company's policy on Directors' remuneration, is set out on pages 99 to 104.

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 Audit Committee carried out an evaluation of its performance. Each member of the Audit Committee answered a questionnaire on his / her perception of the composition, operation and effectiveness of the Audit Committee and on the performance of the Chairperson of the Audit 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.

Going Concern

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

Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2011/12 are shown below.

	Board meeting		Audit Committee		Corporate Social Responsibility Committee		Procurement Committee		Nomination and Remuneration Committee		Risk Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Seán Hogan[26]	15	13	6	2	4	2	-	-	4	4	-	-
Donald Price	15	11	6	5	-	-	-	-	4	4	-	-
Kevin Steele[27]	15	15	6	3	-	-	12	12	-	-	-	-
Deep Sagar (appointed 22/08/11)	15	6	-	-	-	-	12	4	-	-	-	-
John Rae (appointed 22/08/11)	15	8	-	-	4	3	-	-	-	-	1	1
Jim Stewart, CBE (appointed 22/08/11)	15	7	6	3	-	-	-	-	-	-	1	1
Peter Bunting (until 22/08/11)	15	4	6	-	-	-	-	-	4	1	-	-
Lawson McDonald (until 22/08/11)	15	4	-	-	4	1	12	4	-	-	-	-
Trevor Haslett	15	15	6	5	4	4	12	12	-	-	1	1
Ronan Larkin	15	14	6	6	-	-	12	11	-	-	1	1
Mark Ellesmere	15	12	6	5	-	-	12	9	4	4	1	1
George Butler	15	13	-	-	4	4	-	-	-	-	-	-
Sara Venning	15	14	-	-	4	4	12	5	-	-	1	1

[26] Seán Hogan became a member of the Audit Committee on 23 January 2012.
[27] Kevin Steele was a member of the Audit Committee until 22 August 2011.

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 strategic, financial, operational, compliance and the risk management framework, at least annually. 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 Risk Committee, which is a sub-committee of the Board, provides an oversight and strategic challenge function towards the management of principal risks and the significant risks escalated over the financial year.

The Audit Committee provides the oversight for financial risk management and its associated controls on behalf of the Board.

The Audit Committee and the Risk Committee receives quarterly reports from the Executive Committee on the significant financial and non-financial risks respectively 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 respective Committees. The action plans are monitored on a quarterly basis on the improvements made to the controls and towards the achievement of its risk appetite.

The Internal Audit Function reports on significant control issues and provides independent, objective assurance and advice on the control environment, risk management framework and corporate governance. The Board confirms that procedures providing an on-going process for identifying, evaluating and managing the principal risks faced by the Company, have been in place for the year to 31 March 2012 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.

Principal Risks

The Company is exposed to a number of commercial risks and uncertainties which could have a material impact on its business, financial condition, operations and reputation. NI Water's established Enterprise Risk Management (ERM) framework will help manage these risks such that the impact on the Company would be reduced to an acceptable level.

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

NI Water inherited an aged and under-funded asset base and much investment is required to bring it to a compatible level by UK and European standards. The regulated business requires significant capital investment and a maintenance programme for water and wastewater networks and treatment facilities. 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 impact to our customers due to quality and interruption to the supply of drinking water and management of wastewater services.

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 and regularity compliance requirement.

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 PC10.

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, discharges into the environment which affect its operations and the Company's responsibility to reduce its carbon footprint. These laws and their enforcement have tended to become more stringent over time, both in relation to their requirements, the associated cost for improvement and in the levels of proof required to demonstrate compliance. 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 and changes to its asset investment strategy in order to comply with any new environmental laws and regulations.

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

NI Water is continually making improvements in its systems and controls to capture information for reporting purposes. This includes working with stakeholders and on-going 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.

The increased use of social networking sites such as Facebook, YouTube and Twitter allows customers to communicate and form their views of certain organisations or events. There has been a marked increase in the number visits to NI Water's website and other communication channels. Whilst NI Water has developed effective communication strategy and being pro-active in communicating with our customers and stakeholders especially with regards to major incident management, there is still a risk that such dialogue and engagement could create a negative impact on NI Water's reputation. We will be monitoring these websites to understand customer sentiments and provide clarification where it is appropriate to do so.

6. Subject to the decision of the NI Executive, any future system to deliver new domestic billing arrangements will have significant financial reputational implications 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.

7. The capital loan note facility, which expires at the end of March 2014, will need to be replaced to ensure sufficient funding for future capital programme.
The funding of the capital programme is made through a capital loan note facility provided by the DRD. The Company understands that a replacement to the existing loan note facility is being considered by the DRD and the DFP.

8. Risk of inappropriate PC13 final determination leading to poor delivery of service to customers and lowering of staff morale.
The Company submitted its PC13 Business Plan to the Utility Regulator on 21 May 2012. The Utility Regulator's draft determination is due on 13 September 2012. The Company is committed to working proactively with the Utility Regulator through the PC13 process to deliver an appropriate final determination.

9. Risk of increasing liabilities in the pension scheme leading to the need for additional contributions from the Company.
The Company works closely with the Scheme's Actuaries, the Board of Trustees and the Shareholder to monitor the funding arrangements for the pension scheme.

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 the DRD.

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

The system of internal control has been in place in NI Water for the year ended 31 March 2012 and up to the date of approval of the Annual Report and Accounts, and accords with the DFP's and HM Treasury's guidance, where appropriate.

Capacity to handle risk

NI Water's Risk Management Policy is updated on an annual basis and clearly states the roles and responsibilities of Board, Committees of Board and the Executive Committee. The roles and responsibilities of Directors and employees are clearly defined. There is a clear chain of accountability from the Accounting Officer to all employees. The Policy provides guidance on how to implement risk assessments and how to manage risk to an acceptable level as determined by the Board. There is an on-going process for identifying, evaluating and managing strategic risks across the business. 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 Audit Committee and Risk Committee; both are sub-committees of the Board. The Audit Committee reviews financial risk management and receives reports from management and from the Company's Internal and External auditors. The Risk Committee has an oversight function and provides strategic challenge to management on the Company's 'Enterprise Risk Management' and the management of strategic risks towards the achievement of corporate objectives.

Other Board sub-Committees such as the Corporate Social Responsibility Committee, Procurement Committee and the Nomination and Remuneration Committee will review risks associated to their terms of reference.

The Board reviews and monitors the management of significant risks on a monthly basis, which provides it with the assurance on the robustness of NI Water's Risk Management Framework. These updates are also provided to the DRD.

A clear statement of the importance which NI Water attributes to risk management, in terms of the achievement of the Company's objectives, has been conveyed to employees through its intranet (Source). 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.

Good governance and risk management is scrutinised by Internal Audit on an annual basis through the various risk based audits conducted over the year and the findings were included in the Internal Audit Annual Statement to the Audit Committee and Risk Committee. Risk management procedures and principal risks are benchmarked against other water and sewerage companies, utility and global risk reports and public sector publications such as the Public Accounts Committee (PAC) reports. 'Horizon Scanning' activities are carried out to identify corporate risks that may have an impact on NI Water and to implement the key learning points.

The risk and control framework

The management team meets at the end of every financial year to evaluate the effectiveness of the risk 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 wastewater entities, key matters identified in the Internal Audit Annual Opinion, the Accounting Officer's Annual Assurance Statement, changes in legislation and Government guidance and a review of emerging business risks are used to inform the corporate risks to be managed in the next financial year.

During the financial year, the Company managed Corporate and Directorate Risk Registers, with allocated risk owners. These Registers are reviewed on at least a quarterly 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 programme or project 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. The Risk Committee makes recommendations to the Board including the review and approval of the appropriate risk appetite. The Board then approves the level of risk appetite and reviews the action plans in place to manage the consequences of risks, should they occur. The Board will review all corporate risks that have a risk grading of 'high' (red) and 'medium' (amber) on a monthly basis, charting the progress of risks over the year.

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

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.

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

- improvements made to the Major Incident Plan following the successful mock incident (exercise Watermill) conducted in October 2011;
- release from the legal 'undertakings' provided to the Utility Regulator on data quality;
- completion of the 12 recommendations specific to NI Water in the Public Accounts Committee (PAC) report on Procurement and Governance;
- an Internal Audit review on the progress of implementing the Procurement Regularisation Project provided a 'Satisfactory' (green) report. It recognised that the plan to regularise the previously identified irregular contracts was a longer term project and is due for completion in December 2012;
- further enhancements to the goods, services and capital procurement controls and processes have been implemented;
- improvement in the management and communication of corporate compliance;
- fraud and bribery prevention training and awareness provided to staff as part of the implementation of the Bribery Act 2010;
- further improvement to IT resilience and disaster recovery and the implementation of IT Strategy and data security;
- further improvement in planning, management, monitoring and reporting of benefits;
- further improvement in the management of claims as more areas of claims are brought under the dedicated in-house Claims Management Unit;
- improvement in the controls surrounding income forecasting, monitoring and reporting;
- evidence of wider application of project management governance under the PRINCE2[29] principles;
- continual improvement in Business Continuity Management across the business to meet customers' needs;
- improved clarity and awareness in relation to the Financial and Procurement Delegations; and
- further refinements to policies and procedures to comply with MPMNI and to be consistent with the DRD where appropriate.

Besides the ICC, other groups meet on a regular basis to manage and report on Health and Safety, Environmental, Capital Works Programme and Business Improvement risks. The existing

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

[29] **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.

controls and required actions identified are reflected in the relevant Corporate Risk Map reports for the purpose of updating management and the Board. Individual Corporate Risk Workshops are held over the financial year to manage risks, taking into account risks associated to seasonal factors and where strategic decisions are required. The Head of Corporate Governance, who is the Chief Risk Officer, meets on a one-to-one basis with Directors and senior managers on a 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.

Information risk management

NI Water is proactive in developing and implementing policies and procedures to manage data quality. Information risk management and data quality are key aspects of information governance and are an integral part of good management regarding the obligations of the legally binding data 'Undertakings' provided to the Utility Regulator. These Undertakings represented an obligation to improve systematically the quality of NI Water's data. NI Water was discharged of these 'Undertakings' in 2011/12. Over the past year, internal audits were conducted on 'Data Quality' with some areas identified for further improvement. The Chief Information Officer (CIO) is charged with overall responsibility for information risk policy. Policies and guidance are in place to manage information risks 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) is being implemented.

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, Audit Committee and Risk Committee, and a plan to address weaknesses and to ensure that continuous improvement of the system of internal control is in place.

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

I am also informed by:

- Board reports including regular monthly agenda items on Health and Safety; Procurement; Internal Audit and Risk;
- Audit Committee reports, including a summary of the main audit issues;
- Risk Committee reports, including prioritised risk management, benchmarking, 'horizon scanning' and the effectiveness of risk management towards the achievement of Company's objectives;
- Monthly financial management reports comparing performance against agreed budgets;

- Directorate 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 Directors and Level 3 managers;
- Subsidy Assurance Statement;
- Internal Audit reports;
- Reports from the Procurement Compliance Officer;
- Fraud, Theft, Bribery 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 from the Head of Internal Audit; 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. An 'Outstanding Actions' report on corporate risk actions is presented to the Executive Committee on a monthly basis and a summary progress report is provided to the Risk Committee on a quarterly basis. 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 NI Water is 'satisfactory' 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 follow up on the implementation of audit recommendations and report 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 control in place in NI Water, a number of significant internal control issues have been identified by the Board. The steps taken to address any weaknesses in significant internal controls are outlined below and these explain the role that the Board and I are taking in addressing and mitigating against any risks inherent in these weaknesses.

Carried forward from 2010/11:

1. PAC and Utility Regulator recommendations

The two recent 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).

The Utility Regulator's report on the investigation into the Freeze/Thaw incident 2010/11 made 56 recommendations for improvement.

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.

- 11 of the 12 PAC recommendations on 'Measuring the Performance of NI Water', which required pro-active actions by NI Water, are progressing towards completion within agreed timescales;
- 12 of the 23 recommendations on Procurement and Governance, which required pro-active actions by NI Water, have been completed; and
- the completion of the Utility Regulator's 56 recommendations is within the agreed timeline with 40 having been completed.

2. Integrated approach to information management and customer communications particularly associated with response to incidents

The water supply issues experienced following the severe winter weather conditions in 2010/11 exposed problems with responding to a large number of customer enquiries. Significant improvements have been made to the NI Water website and call handling facilities. However, there is a risk that customers and stakeholders will have unrealistic expectations of the service that NI Water will be able to deliver, should a similar event occur in the future. NI Water continues to carry out mock incidents to test the processes and is working to improve the systems for identifying incidents and reporting information.

3. Risk of operational and service failure due to the reduction in the number of staff

NI Water has reduced its number of staff from approximately 2,000 at the beginning of 2005/06 to approximately 1,300 in 2011/12 while at the same time delivering the operational efficiency targets. The operational cost efficiency targets for the PC10 period are extremely challenging with further reduction in staff numbers anticipated in the PC13 period. A significant internal control issue surrounds the capacity of NI Water to achieve the efficiency targets while maintaining its essential services to customers and protecting 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, increasing the risk of operational and service failure.

4. Appropriate Business Continuity Plans (BCP) and IT Disaster Recovery

The internal audit report on BCP identified areas for urgent improvement, with business critical activities completed by October 2011 and other recommendations completed in June 2012. Business critical areas such as Telemetry, Payroll and Laboratory services have all been tested and their BCPs updated. Internal Audit recognised the improvements in this area.

The IT Disaster Recovery (ITDR) project was implemented in June 2011 and completed and tested in quarter 3 of 2011/12. Internal Audit conducted their review of ITDR in year and recommendations are on track for completion.

5. Regularity – Procurement

Irregular spend in the area of procurement gave rise to a qualified opinion in the 2010/11 Statutory Accounts. An action plan is in place to address outstanding matters and is due to complete by December 2012.

6. Data Quality

Customer data remains our key focus in areas such as customer numbers, meters, properties and other customer data used for tariff setting purposes. Whilst release from the Data Quality Undertakings was achieved in 2011/12, there remains an on-going requirement to address data quality issues within NI Water. Some of the key areas of focus are as follows:

- Metering data - a project is underway to assess the issues, manage the risk, and to establish reporting in relation to metering data. Accurate metering data is required for a positive customer experience, billing purposes, revenue assurance, addressing meter queries and reporting against regulatory targets;

- Customer debt data - plans are underway to further analyse the customer debt ledgers and the amount of debt outstanding more than 180 days; and
- Asset data - the Asset Data Acquisition and Improvement (ADAI) Project is underway to target asset data improvements. This will reduce, but not eliminate, the risks associated with the adequacy and reliability of asset information required to inform key asset decisions such as the targeting of capital investment.

New control issues in 2011/12:

7. Risk of not investing the full capital allocation within year
The capital spend is subject to the public expenditure budgetary constraints. This prevents carry forward of any under or overspends to future periods and also results in uncertainty over medium to long-term capital investment. This can undermine delivery of the capital investment programme and reduces scope for delivering value for money.

8. Compliance with new governance document
The Management Statement and Financial Memorandum (MSFM), which became effective on 1 April 2012, replaced the existing Governance Letters. The MSFM sets out how MPMNI is applied within NI Water and introduces additional compliance requirements.

9. Contract management
NI Water recognises the need to emphasise the importance of sound contract management principles and will be taking this forward across the organisation. We continue to improve the systems of control regarding the management of high value operational contracts.

Trevor Haslett
Accounting Officer
27 June 2012

Directors' remuneration report

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for the remuneration policy generally within the Company and for approving all aspects of Executive Directors' and Executives' remuneration and for ensuring that the remuneration policy is followed throughout the organisation. The remuneration of Non-Executive Directors is determined by the DRD. The terms of reference of the Nomination and Remuneration Committee are available by writing to our Company Secretary at the address on the back cover of this report.

Advice to the Nomination and Remuneration Committee

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

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

Remuneration policy

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

Base salaries

Under the policy, base salaries for each Executive Director and Executive should be reviewed annually taking into account inflation. Every three years the salaries are reviewed against relevant benchmark information. Notwithstanding this policy the Company has been subject to a pay freeze in 2011/12 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 less than £21,000 per annum). There was no discretionary performance related bonus scheme in 2011/12. Fees paid to Executive and Non-Executive Directors are shown below.

Annual bonus

There was no bonus scheme in 2011/12 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[30] per day and the Non-Executive Directors receive a fee of £750[31] per day. The higher fee for the Chairman reflects the additional responsibilities of that role. Further details on the attendance by the Chairman and the Non-Executive Directors are provided on page 88.

Directors' employment contracts

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

Fees paid to members of the Executive Committee

	Year to 31 March 2012				Year to 31 March 2011			
	Salary and allowances	**Bonus**	**Benefits in kind (to nearest £100)**	**Total**	Salary and allowances	Bonus	Benefits in kind (to nearest £100)	Total
	£000	**£000**		**£000**	£000	£000		£'000
Current Executive Directors:								
Trevor Haslett	**135 - 140**	**-**	**-**	**135 - 140**	100 - 105	-	-	100 - 105
	(145 - 150 full year equivalent)				(125 - 130 full year equivalent)			
Ronan Larkin	**105 - 110**	**-**	**-**	**105 - 110**	105 - 110	-	-	105 - 110
George Butler	**105 - 110**	**-**	**-**	**105 - 110**	105 - 110	-	-	105 - 110
Sara Venning	**115 - 120**	**-**	**-**	**115 - 120**	110 - 115	-	-	110 - 115
					(115 - 120 full year equivalent)			
Current members of the Executive Committee (not Executive Directors):								
Bill Gowdy	**75 - 80**	**-**	**-**	**75 - 80**	15 - 20	-	-	15 - 20
					(75 - 80 full year equivalent)			
Mark Ellesmere	**100 - 105**	**-**	**-**	**100 - 105**	100 - 105	-	-	100 - 105
Former member of the Executive Committee (not Executive Director):								
Pauline Shepherd (retired 8 May 2011)	**5 - 10**	**-**	**-**	**5 - 10**	85 - 90	-	-	85 - 90
	(85 - 90 full year equivalent)							

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

Pay multiples

The relationship between the remuneration of the highest paid Director[32] and the median remuneration of NI Water's workforce is shown below.

The banded remuneration of the highest paid Director in NI Water was £145k - £150k on a full year equivalent basis (2011: £115k-£120k). This was 3.49 times (2011: 3.31 times) the median remuneration of the workforce, which was £39,365 (2011: £35,540). The change in the pay multiple (ratio) between 2011/12 and 2010/11 was primarily due to the increase in the highest paid Director's remuneration. This change followed the appointment of Trevor Haslett as Chief Executive on 1 November 2011 (Trevor Haslett previously acted as Interim Chief Executive).

Remuneration includes salary, performance-related pay, benefits-in-kind as well as any severance payments associated with NI Water's Voluntary Early Retirement and Voluntary Severance schemes. It does not include employer pension contributions and the cash equivalent transfer value of pensions. Median remuneration is based on the full-time equivalent workforce of NI Water at 31 March on an annualised basis. The workforce includes Executive Directors (excluding the highest paid Director) and Non-Executive Directors for the purpose of this disclosure.

	Year to 31 March 2012	Year to 31 March 2011
	Total	Total
Highest paid Director (£'000)	**135 - 140**	115 - 120
	(145 - 150 full year equivalent)	
Median total remuneration (£)	**39,365**	35,540
Pay multiple (ratio)	**3.49**	3.31

[32] This relates to current serving Directors. As disclosed in note 8a to the Statutory Accounts, the remuneration of a former Director in 2010/11 was £244k which includes amounts paid on departure in line with the service contract. The pay multiple would increase from 3.31 times to 6.82 times for 2010/11 if the remuneration of this former Director was used.

Fees paid to Non-Executive Directors

	Year to 31 March 2012				Year to 31 March 2011			
	Salary and allowances £000	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Total £000**	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £'000
Current Non-Executive Directors:								
Seán Hogan - Chairman	**45 - 50**	**-**	**-**	**45 - 50**	- (40 - 45 full year equivalent)	-	-	-
Donald Price	**15 - 20**	**-**	**-**	**15- 20**	15 - 20	-	-	15 - 20
Kevin Steele	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20 (15 - 20 full year equivalent)	-	-	15 - 20
Deep Sagar (appointed on 22 August 2011)	**10 - 15 (15 - 20 full year equivalent)**	**-**	**-**	**10 - 15**	-	-	-	-
John Rae (appointed on 22 August 2011)	**10 - 15 (15 - 20 full year equivalent)**	**-**	**-**	**10 - 15**	-	-	-	-
Jim Stewart, CBE (appointed on 22 August 2011)	**10 - 15 (15 - 20 full year equivalent)**	**-**	**-**	**10 - 15**	-	-	-	-
Former Non-Executive Directors:								
Peter Bunting (until 22 August 2011)	**10 - 15 (15 - 20 full year equivalent)**	**-**	**-**	**10 - 15**	15 - 20 (15 - 20 full year equivalent)	-	-	15 - 20
Lawson McDonald (until 22 August 2011)	**5 - 10 (15 - 20 full year equivalent)**	**-**	**-**	**5 - 10**	15 - 20 (15 - 20 full year equivalent)	-	-	15 - 20

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 it was "mirror image" in terms of benefits and contributions of the Principal Civil Service Pension Scheme (Northern Ireland) as at 1 April 2007. The Executive Directors who transferred to NI Water automatically became members of the new scheme and in January 2009 took a decision whether to transfer their benefits accrued in the Principal Civil Service Pension Scheme (Northern Ireland) to the NI Water scheme. Pension benefits due to Executive Directors are shown below. The Premium section of the Scheme was closed to new starts with effect from 30 November 2010. The Company established a career average re-valued (CARE) defined benefit section for all new starts after that date. The Trustees have agreed to manage the CARE section for the Company. Further details on pensions are provided in note 21 to the financial statements.

Transfer values

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

Increase in transfer value less Directors' contributions

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

Pension benefits for members of the Executive Committee

	Accrued pension at age 60 at 31 March 2012	**Related lump sum at 31 March 2012**	**Real increase in pension at age 60**	**Real increase in lump sum at age 60**
	£000	**£000**	**£000**	**£'000**
Current Executive Directors:				
Trevor Haslett	65 - 70	195 - 200	10 - 12.5	30 - 32.5
Ronan Larkin	10 - 15	-	0 - 2.5	-
George Butler	10 - 15	-	0 - 2.5	-
Sara Venning	0 - 5	-	0 - 2.5	-
Current members of the Executive Committee (not Executive Directors):				
Bill Gowdy	5 - 10	10 - 15	0 - 2.5	2.5 - 5
Mark Ellesmere	10 - 15	-	0 - 2.5	-

Pension (CETV) benefits for members of the Executive Committee

	CETV at 31 March 2012 **£000**	CETV at 31 March 2011 £000	**Increase in transfer value less Director's contribution** **£000**	**Employer contribution (to nearest £100)**
Current Executive Directors:				
Trevor Haslett	**2,008**	1,435	**571**	**35,000**
Ronan Larkin	**254**	152	**98**	**29,300**
George Butler	**292**	189	**99**	**29,300**
Sara Venning	**78**	25	**49**	**32,300**
Current members of the Executive Committee (not Executive Directors):				
Bill Gowdy	**148**	97	**50**	**20,400**
Mark Ellesmere	**201**	113	**84**	**27,800**

Trevor Haslett

Trevor Haslett
Chief Executive
27 June 2012

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
27 June 2012

STATUTORY ACCOUNTS

Altnahinch Water Treatment Works, Co Antrim.

Statement of financial position

	Note	At 31 March 2012 £000	At 31 March 2011 £000
Assets			
Property, plant and equipment	*11*	**2,177,880**	2,013,407
Investment properties	*12*	**10,796**	-
Intangible assets	*13*	**28,662**	19,957
Other investments	*14*	**87**	106
Employee benefits	*21*	**9,543**	6,197
Total non-current assets		**2,226,968**	2,039,667
Inventories	*16*	**2,183**	1,869
Trade and other receivables	*17*	**21,960**	20,397
Prepayments		**13,393**	9,889
Cash and cash equivalents	*18*	**3,067**	15,836
Assets classified as held for sale	*4*	**327**	175
Total current assets		**40,930**	48,166
Total assets		**2,267,898**	2,087,833
Equity			
Share capital	*19*	**500,000**	500,000
Statutory distributable reserve	*19*	**171,690**	171,690
Retained earnings	*19*	**244,973**	154,896
Total equity attributable to owner of the Company		**916,663**	826,586
Liabilities			
Loans and borrowings	*20*	**1,029,510**	967,543
Other payables	*24*	**1,044**	1,377
Deferred income	*22*	**6,968**	7,310
Provisions	*23*	**9,168**	8,358
Deferred tax liabilities	*15*	**166,083**	146,869
Total non-current liabilities		**1,212,773**	1,131,457
Loans and borrowings	*20*	**8,164**	7,519
Trade payables	*24*	**108,946**	104,280
Other payables	*24*	**5,932**	5,871
Deferred income	*22*	**3,230**	448
Provisions	*23*	**12,190**	11,672
Total current liabilities		**138,462**	129,790
Total liabilities		**1,351,235**	1,261,247
Total equity and liabilities		**2,267,898**	2,087,833

The financial statements were authorised for issue by the Board of Directors on 27 June 2012 and were signed on its behalf by:

Trevor Haslett

Trevor Haslett
Chief Executive
27 June 2012

Statement of comprehensive income

	Note	**Year to 31 March 2012 £000**	Year to 31 March 2011 £000
Revenue	*5*	**413,355**	403,151
Other income	*6*	**559**	455
Operating expenses	*7*	**(221,456)**	(234,792)
Research and development expenses		**(425)**	(418)
Results from operating activities		**192,033**	168,396
Finance income	*9*	**7,411**	6,576
Finance costs	*9*	**(66,045)**	(62,800)
Net finance costs		**(58,634)**	(56,224)
Profit before income tax		**133,399**	112,172
Income tax expense	*10*	**(18,795)**	(31,714)
Profit for the year		**114,604**	80,458
Other comprehensive income			
Defined benefit plan actuarial gains/(losses)	*10*	**1,456**	1,161
Shares not held for trading – revaluation loss		**(19)**	-
Other comprehensive income for the period, net of income tax		**1,437**	1,161
Total comprehensive income for the period		**116,041**	81,619
Profit attributable to:			
Owner of the Company		**114,604**	80,458
Total comprehensive income attributable to:			
Owner of the Company		**116,041**	81,619

Statement of changes in equity

	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Total equity £000
		Attributable to the owner of the Company			
Balance at 1 April 2010	*19*	500,000	171,690	109,305	780,995
Total comprehensive income for the period					
Profit for the year		-	-	80,458	80,458
Other comprehensive income					
Defined benefit pension plan actuarial gains	*21*	-	-	1,569	1,569
Deferred tax arising on gains in defined benefit plan	*15*	-	-	(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	*19*	-	-	(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 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 2011	*19*	500,000	171,690	154,896	826,586
Total comprehensive income for the period					
Profit for the year		-	-	114,604	114,604
Other comprehensive income					
Defined benefit pension plan actuarial gains	*21*	-	-	1,875	1,875
Deferred tax arising on gains in defined benefit plan	*15*	-	-	(419)	(419)
Shares not held for trading – revaluation loss		-	-	(19)	(19)
Total other comprehensive income		-	-	1,437	1,437
Total comprehensive income for the period		-	-	116,041	116,041
Transactions with owner, recognised directly in equity					
Distributions to owner of the Company					
Dividends to owner of the Company	*19*	-	-	(25,964)	(25,964)
Balance at 31 March 2012		500,000	171,690	244,973	916,663
Dividends per share (GBP)					0.05

Statement of cash flows

	Note	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Cash flows from operating activities			
Profit before tax		**133,399**	112,172
Adjustments for:			
Depreciation	*11,12*	**50,415**	43,932
Amortisation of intangible assets	*13*	**5,169**	3,859
Impairment losses on investment property	*12*	**2,403**	10,815
Notional income relating to adopted assets	*5*	**(47,939)**	(46,070)
Gain on sale of property, plant and equipment		**(212)**	(108)
Interest expense	*9*	**58,634**	56,224
		201,869	180,824
Changes in:			
- inventories		**(314)**	1
- trade and other receivables		**(1,563)**	5,007
- prepayments		**(3,504)**	7,158
- trade and other payables		**3,039**	(5,350)
- provisions		**1,328**	(13,558)
- excess of cash pension contributions over charge		**(315)**	(779)
Cash generated from operating activities		**200,540**	173,303
Cash flows from investing activities			
Interest received		**131**	225
Proceeds from sale of property, plant and equipment		**304**	251
Acquisition of property, plant and equipment, and intangible assets		**(191,092)**	(181,894)
Net cash used in investing activities		**(190,657)**	(181,418)
Cash flows from financing activities			
Proceeds from borrowings		**70,000**	110,000
Payment of finance lease liabilities		**(7,388)**	(7,192)
Interest paid		**(59,300)**	(56,245)
Dividends paid	*19*	**(25,964)**	(36,028)
Net cash from financing activities		**(22,652)**	10,535
Net (decrease)/increase in cash and cash equivalents		**(12,769)**	2,420
Cash and cash equivalents at 1 April	*18*	**15,836**	13,416
Cash and cash equivalents at 31 March	*18*	**3,067**	15,836

Notes to the Statutory Accounts

1 Accounting policies

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

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

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

The financial statements were authorised for issue by the Board of Directors on 27 June 2012.

(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 2012. The Directors consider it appropriate and are content to adopt this approach for the following reasons:

- a market for services for the provision of water and sewerage services will continue to exist and a licence is in place with the Utility Regulator, that is underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, that designates Northern Ireland Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland;
- the DRD provides substantial revenue funding to the business and will continue to do so until domestic charging is introduced;
- 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 pound sterling (GBP), which is the Company's functional currency. All financial information presented in GBP has been rounded to the nearest thousand.

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

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

1 Accounting policies (continued)

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

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

2 Significant accounting policies

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

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

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

Financial assets and liabilities are offset and the net amount presented in the 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 17).

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

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

2 Significant accounting policies (continued)

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

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

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

2 Significant accounting policies (continued)

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

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

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

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

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

Adopted assets are valued using the relevant unit costs set during PC10.

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

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

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

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

2 Significant accounting policies (continued)

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

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

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

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

(c) Investment properties

Investment properties are properties held as surplus to operational requirements or for capital appreciation; but not for immediate sale, use in the supply of services, or for administrative purposes. As permitted by IAS 40, investment properties are measured using the cost model specified in IAS 16 whereby properties are recorded initially at cost and subsequently at cost less accumulated depreciation and any accumulated impairment losses.

When property changes use from operational or occupied to surplus property it is reclassified from property plant and equipment to investment property. Transfers between classes do not change the carrying amount of the property transferred or the cost of the property for measurement or disclosure purposes.

(d) Intangible assets

(i) Research and development

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

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

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

NI Water invested £0.4m on research and development in the year ended 31 March 2012 (2011: £0.4m).

2 Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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.

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

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

2 Significant accounting policies (continued)

(g) Impairment

(i) Non-derivative financial assets

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

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

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

(ii) Receivables

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

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

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

(iii) Non-financial assets

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

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

2 Significant accounting policies (continued)

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

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

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

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

(h) Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. The principal assets within this category are non-operational land and buildings. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Company's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(i) Employee benefits

(i) Defined benefit plans

The Company operates a 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.

2 Significant accounting policies (continued)

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.

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

(k) Revenue recognition
Revenue is recognised 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 wastewater services supplied to customers between the date of the last meter reading and the year-end. For unmeasured customers billed in advance, income is deferred and released to the income statement throughout the year.

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

2 Significant accounting policies (continued)

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

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

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

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

A capital subsidy is received from the DRD in relation to requisitioning of water and sewerage infrastructure for older properties. Similarly to all capital contributions from customers, and in accordance with IFRIC 18, this is credited directly to revenue within the SOCI (see related parties note 29).

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

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.

2 Significant accounting policies (continued)

(n) Finance income and finance costs

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

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

(o) Income tax

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

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

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

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

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

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

(p) Foreign currency transactions

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

(q) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the 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.

2 Significant accounting policies (continued)

(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.

New standards, amendments and interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 March 2012 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements. The standards and interpretations not adopted are outlined below:

- Amendments to IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (mandatory for the year commencing on or after 1 July 2011);
- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets (mandatory for the year commencing on or after 1 July 2011);
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (mandatory for the year commencing on or after 1 January 2012);
- Amendments to IFRS 9 Financial Instruments (mandatory for the year commencing on or after 1 January 2015);
- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interest in other Entities and IFRS 13 Fair Value Measurement (mandatory for the year commencing on or after 1 January 2013);
- IAS 27 Separate Financial Statements (2011) which supersedes IAS 27 (2008) and IAS 28 Investments in Associates and Joint Ventures (2011) which supersedes IAS 28 (2008) (mandatory for the year commencing on or after 1 January 2013);
- Amendments to IAS 19 Employee Benefits (mandatory for the year commencing on or after 1 January 2012);
- Amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (mandatory for the year commencing on or after 1 January 2012); and
- IPSAS32 – Service Concession Arrangement (mandatory for the year commencing on or after 1 January 2014).

3 Financial risk management

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

- Credit risk;
- Liquidity risk;
- Market risk;
- Interest rate risk;
- 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's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The 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 65% of the Company's revenue is in the form of a customer subsidy provided by the DRD. This primarily relates to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The credit risk in relation to the remaining 35% is mitigated by the credit control policies outlined above.

3 Financial risk management (continued)

Excluding the Company's subsidy from the 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 the 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:

- deposits with banks other than main relationship bank (MRB) only placed if other bank holds investment grade credit rating issued by main credit rating agency, i.e., Standard and Poor's, Moody's or Fitch;
- maximum exposure of £30m in other banks; and
- no more than 50% of funds held in any bank other than MRB.

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

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

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

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

The facilities outlined at (a) and (b) are not utilised at 31 March 2012.

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

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

3 Financial risk management (continued)

Interest Rate Risk
Interest rates on 100% of borrowings at 31 March 2012 (2011: 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's dividend.

3 Financial risk management (continued)

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 89 to 91.

4 Non-current assets held for sale

The Company's Land Management Department is focusing on selling the properties no longer required for operational purposes. Efforts to sell the assets have commenced and where the sale is expected by April 2013 these properties have been classified as held for sale in current assets.

	At 31 March 2012 £000	At 31 March 2011 £000
Property, plant and equipment	**327**	175

A gain of £100k (2011:£108k) on disposal of non-current assets held for sale is included within 'Other income' in the SOCI.

5 Revenue

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Customer subsidy provided by the DRD	**269,161**	263,241
Customer income	**70,502**	67,086
Road drainage income from the DRD	**20,134**	19,867
Transfers of assets from customers	**47,939**	46,070
Connection and infrastructure charges	**4,762**	5,876
Other third party contributions	**857**	1,011
	413,355	403,151

Customer subsidy provided by the DRD
The customer subsidy provided by the DRD primarily relates to the deferment of the introduction of domestic charges.

Customer income
The revenue 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 the DRD
This revenue from the DRD Roads Service represents the recovery of the costs incurred by the Company in dealing with the run-off of water from roads and footpaths.

5 Revenue (continued)

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

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

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

6 Other income

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Net gain on sale of property, plant and equipment	**212**	108
Amortisation of deferred grants and contributions	**347**	347
	559	455

7 Operating expenses

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Raw materials and consumables	**9,652**	9,863
Other operating expenses*	**107,568**	117,894
Staff costs	**55,239**	57,392
Own work capitalised	**(8,990)**	(8,965)
Depreciation and other amounts written off tangible assets	**57,987**	58,608
Total operating expenses	**221,456**	234,792

*Other operating expenses comprise:

Power	**29,476**	33,872
Rates	**13,434**	11,775
Hire and contracted services	**51,202**	55,395
Other operating expenses	**13,456**	16,852
Total other operating expenses	**107,568**	117,894

7 Operating expenses (continued)

The net increase in inventories for the year was £314k (2011:£1k decrease).

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Impairment loss on property, plant and equipment	**-**	10,815
Impairment loss on investment properties	**2,403**	-
Impairment loss on trade receivables	**(16)**	1,093
	2,387	11,908

The impairment losses above are included within the 'operating expenses' line of the SOCI. The events and circumstances leading to the recognition of the impairment losses in investment properties are outlined in note 12.

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Auditor's remuneration:		
Audit of statutory financial statements	**95**	85
Audit of regulatory financial statements	**18**	17
Audit of whole of government account submission	**2**	2
	115	104
Amounts receivable by the auditor and its associates in respect of:		
Other services relating to taxation	**120**	289
Accounting and regulatory advice	**11**	25
	131	314
Total fees paid to the auditor	**246**	418

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 2012	No. of employees Year to 31 March 2011
Directors	**10**	9
Non-industrial staff	**785**	795
Industrial staff	**523**	547
	1,318	1,351

8 Personnel numbers and expenses (continued)

The aggregate payroll costs of these persons were as follows:

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Wages and salaries	**41,690**	42,995
Social security costs	**3,239**	3,129
Other pension costs	**10,310**	11,269
	55,239	57,393

An amount of £7,646k (2011: £7,598k) of the above payroll costs has been capitalised as it relates to work carried out by the Company that adds to the value of property, plant and equipment and intangible assets.

8a Key management personnel short-term employee benefits

Detailed information concerning key management personnel's remuneration, bonus payments and pensions is included in the Directors' remuneration report on pages 99 to 104. 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 2012 £000	Year to 31 March 2011 £000
Short-term employee benefits	**783**	1,033
Post-employment benefits	**174**	224
Performance related	**-**	2
	957	1,259

The emoluments of the highest paid Director were £150k (2011: £244k).

There would be amounts included in the SOCI in respect of actuarial gains and losses attributable to key management personnel, however, it is considered impractical to provide a breakdown of the actuarial gains / losses relating to individual members. While some elements resulting in gains / losses are easy to measure on an individual basis e.g. the effect of salary increases, others would involve allocating a share in investment returns and other scheme experience (deaths / retirements) which cannot be attributed to individual members.

8b Exit packages

The exit packages for employees who left the Company during the year are reported below. The majority of the exit packages relate to the Voluntary Early Retirement and Voluntary Severance (VER / VS) schemes which were used to facilitate the targeted reduction in headcount. The VER / VS schemes are similar to the 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.

8b Exit packages (continued)

Exit package cost band	Number of compulsory redundancies 31 March 2012	Number of other departures agreed 31 March 2012	Total number of exit packages by cost band 31 March 2012	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
£000						
0 – 10	**-**	**-**	**-**	-	-	-
10 – 25	**-**	**11**	**11**	-	13	13
25 – 50	**-**	**4**	**4**	-	7	7
50 – 100	**5**	**12**	**17**	-	13	13
Above 100	**1**	**2**	**3**	-	7	7
Total number	**6**	**29**	**35**	-	40	40
Total cost (£'000)	**540**	**1,610**	**2,150**	-	2,395	2,395

9 Finance income and finance costs

Recognised in profit or loss

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Interest income on bank deposits	**127**	225
Expected return on pension scheme assets	**7,284**	6,351
Finance income	**7,411**	6,576
Interest on pension scheme liabilities	**(6,128)**	(5,675)
Interest expense on financial liabilities measured at amortised cost	**(38,209)**	(34,883)
Interest on PPP financing arrangements	**(21,708)**	(22,242)
Finance costs	**(66,045)**	(62,800)
Net finance costs recognised in profit or loss	**(58,634)**	(56,224)

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 2012 £000	Year to 31 March 2011 £000
Total interest income on financial assets	**7,411**	6,576
Total interest expense on financial liabilities	**(66,045)**	(62,800)

Of the above amount £39,894k (2011: £35,480k) was payable to the DRD in relation to loan notes issued (see note 20 'Loans and borrowings' and note 29 'Related parties'). Interest of £1,775k was capitalised in the year (2011: £636k).

10 Income tax expense

	Note	**Year to 31 March 2012 £000**	Year to 31 March 2011 £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		**(37,047)**	(42,951)
Adjustment to prior years		**4,481**	-
Reduction in tax rate from 26% to 24%		**13,771**	11,237
	15	**(18,795)**	(31,714)
Total income tax expense	*15*	**(18,795)**	(31,714)

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

	Year to 31 March 2012			Year to 31 March 2011		
	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)	**1,875**	**(419)**	**1,456**	1,569	(408)	1,161
	1,875	**(419)**	**1,456**	1,569	(408)	1,161

10 Income tax expense (continued)

Reconciliation of effective tax rate

	Year to 31 March 2012 %	Year to 31 March 2012 £000	Year to 31 March 2011 %	Year to 31 March 2011 £000
Profit for the year		**114,604**		80,458
Total income tax expense		**18,795**		31,714
Profit excluding income tax		**133,399**		112,172
Income tax using the Company's domestic tax rate	**26**	**34,684**	28	31,408
Reduction in tax rate	**(10)**	**(13,771)**	(10)	(11,237)
Non-deductible expenses	**1**	**2,363**	10	11,543
Adjustment to prior years	**(3)**	**(4,481)**		-
	14	**18,795**	28	31,714

Factors affecting future tax charge

At the end of March 2012 the Chancellor of the Exchequer made an announcement in the Budget reducing the corporation tax rate for 2012/13 from 25% to 24%. This 24% rate was 'substantially enacted' into legislation prior to 31 March 2012. A corporation tax rate of 23% will be applicable for the financial year beginning 1 April 2013. The Chancellor also announced that a corporation tax rate of 22% should apply for the financial year beginning 1 April 2014. If the 22% rate is substantially enacted prior to 31 March 2013, then it is the 22% rate which would form the basis of deferred tax provision within the 2012/13 Statutory Accounts. This will result in a lower deferred 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 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**
Balance at 1 April 2011	90,091	1,160,900	723,577	10,557	162,455	**2,147,580**
Opening adjustments	185	(10)	(1,103)	-	1,044	**116**
Additions	-	2,899	-	-	177,488	**180,387**
Customer contributions	42	46,947	1,045	-	-	**48,034**
Disposals	(43)	(1,626)	(72)	(464)	-	**(2,205)**
Transfers	2,116	83,711	88,287	1,213	(175,327)	**-**
Reclassification to investment properties	(28,706)	-	(2,868)	-	-	**(31,574)**
Balance at 31 March 2012	**63,685**	**1,292,821**	**808,866**	**11,306**	**165,660**	**2,342,338**

* 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 2010	(4,369)	(25,178)	(46,903)	(4,922)	-	**(81,372)**
Transfers	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)**
Balance at 1 April 2011	(15,645)	(36,769)	(75,917)	(5,842)	-	**(134,173)**
Opening adjustments	-	-	(26)	-	-	**(26)**
Depreciation for the year	(1,205)	(14,481)	(33,307)	(1,340)	-	**(50,333)**
Disposals	20	1,626	15	447	-	**2,108**
Reclassification to investment properties	15,970	-	1,996	-	-	**17,966**
Balance at 31 March 2012	**(860)**	**(49,624)**	**(107,239)**	**(6,735)**	**-**	**(164,458)**
Carrying amounts						
At 31 March 2011	74,446	1,124,131	647,660	4,715	162,455	2,013,407
At 31 March 2012	**62,825**	**1,243,197**	**701,627**	**4,571**	**165,660**	**2,177,880**

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

All surplus land and buildings have been transferred to investment properties and non-current assets held for sale (see note 12).

11 Property, plant and equipment (continued)

Borrowing costs capitalisation
Included in the total net book value of property, plant and machinery is £1,775k (2011: £636k) of borrowing costs capitalised during the period using a capitalisation rate of 5.25% (2011: 5.25%).

Leased assets

	At 31 March 2012 £000	At 31 March 2011 £000
The net book value of land and buildings comprises:		
Freehold	**62,139**	73,669
Leasehold - long and short term	**686**	777
Total	**62,825**	74,446

	At 31 March 2012 £000	At 31 March 2011 £000
Land within this total is not depreciated and is shown as follows:		
Freehold	**17,941**	26,690

PPP assets
The cost and net book value of PPP assets included in property, plant and equipment are disclosed in note 30.

12 Investment properties

	Total £000
Cost or deemed cost	
Balance at 1 April 2010	-
Additions	-
Balance at 31 March 2011	**-**
Balance at 1 April 2011	-
Reclassification from property, plant and equipment	31,574
Disposals	(200)
Reclassification to non-current assets held for sale	(3,136)
Balance at 31 March 2012	**28,238**
Accumulated depreciation and impairment losses	
Balance at 1 April 2010	-
Depreciation for the year	-
Balance at 31 March 2011	-
Balance at 1 April 2011	-
Reclassification from property, plant and equipment	(17,966)
Reclassification to non-current assets held for sale	2,809
Disposals	200
Depreciation for the year	(82)
Impairment loss	(2,403)
Balance at 31 March 2012	**(17,442)**
Carrying amounts	
At 31 March 2011	-
At 31 March 2012	**10,796**

Impairment loss

During the year ended 31 March 2012, the Company recognised an impairment loss of £2.4m (2011: £10.81m) relating to 14 surplus land and buildings assets. The impairments arose following a professional valuation of land and buildings which are deemed to be surplus but do not meet the criteria of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. It was found that, due to the decline in the property market, the assets carrying amounts were greater than their fair value. As a result, the land and buildings assets were impaired so that the carrying amounts represent amortised cost.

A material impairment loss of £1.0m 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 (6th 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 arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.*"

13 Intangible assets

	Computer software	Assets in the course of construction	**Total**
	£000	£000	**£000**
Cost			
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**
Balance at 1 April 2011	24,597	6,668	**31,265**
Acquisitions	-	13,874	**13,874**
Transfers	12,115	(12,115)	**-**
Balance at 31 March 2012	**36,712**	**8,427**	**45,139**
Amortisation			
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)**
Balance at 1 April 2011	(11,308)		**(11,308)**
Amortisation for the year	(5,169)	-	**(5,169)**
Balance at 31 March 2012	**(16,477)**	**-**	**(16,477)**
Carrying amounts			
At 31 March 2011	13,289	6,668	19,957
At 31 March 2012	**20,235**	**8,427**	**28,662**

Assets in the course of construction (AICC)
No borrowing costs have been capitalised in AICC or commissioned in computer software. There were no disposals during the year (2011:£1,309k).

£425k (2011: £418k) of research and development expenditure was recognised as an expense during the period.

13 Intangible assets (continued)

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

Description	Carrying amount	Remaining amortisation period (years)
Mobile Work Management System	£3.35m	4
Customer Billing/Contacts/ Mobile Work Management Project	£2.72m	4
Digitisation	£1.93m	7
NI Asset Management Plan (NIAMP) 3	£1.40m	4
Costing solution development	£1.33m	Under development*

* Assets under development are not amortised.

The contractual commitments for the acquisition of intangible assets as at 31 March 2012 are £3,534k (2011: £428k).

14 Other investments

	At 31 March 2012 £000	At 31 March 2011 £000
Non-current investments		
8% unsecured loan stock (15,278 units at £1 each)	**15**	15
15,278 ordinary 'A' shares (revalued at 31 March 2012 at market value £4.68 per share)	**72**	91
	87	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 2012 was £4.68 per ordinary share (2011: £7.90). The loan stock is unlisted.

15 Deferred tax assets and liabilities

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

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

	Assets		Liabilities		Net	
	At 31 March 2012 £000	At 31 March 2011 £000	**At 31 March 2012 £000**	At 31 March 2011 £000	**At 31 March 2012 £000**	At 31 March 2011 £000
Property, plant and equipment	**-**	-	**196,647**	165,367	**196,647**	165,367
Intangible assets	**-**	-	**1,245**	1,166	**1,245**	1,166
Employee benefits	**-**	-	**2,291**	1,612	**2,291**	1,612
Tax losses carried forward	**(34,100)**	(21,276)	**-**	-	**(34,100)**	(21,276)
Net tax (assets) / liabilities	**(34,100)**	(21,276)	**200,183**	168,145	**166,083**	146,869

Movement in temporary differences during the year

	Balance at 31 March 2011 £000	**Recognised in profit £000**	**Recognised in other comprehensive income £000**	**Balance at 31 March 2012 £000**
Property, plant and equipment	165,367	31,280	-	**196,647**
Intangible assets	1,166	79	-	**1,245**
Employee benefits	1,612	260	419	**2,291**
Tax losses carried forward	(21,276)	(12,824)	-	**(34,100)**
	146,869	18,795	419	**166,083**

16 Inventories

	At 31 March 2012 £000	At 31 March 2011 £000
Raw materials and consumables	**2,141**	1,850
Work in progress	**42**	19
	2,183	1,869

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

During the year raw materials, consumables and work in progress recognised within operating costs amounted to £177k (2011: £286k). In the year ending 31 March 2012 the write-down of inventories to net realisable value amounted to £60k (2011: £60k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2011: £60k) and provision against work in progress of £nil (2011: £nil). The reversal of write-downs amounted to £Nil (2011: £76k). The write-down and reversal are included in operating expenses.

17 Trade and other receivables

	At 31 March 2012 £000	At 31 March 2011 £000
Trade receivables from related parties (see note 29)	**1,397**	1,384
Other trade receivables	**10,939**	11,354
Other receivables	**9,624**	7,659
	21,960	20,397
Current	**21,960**	20,397

At 31 March 2012 other receivables include VAT receivable of £7,132k (2011: £6,397k).

18 Cash and cash equivalents

	At 31 March 2012 £000	At 31 March 2011 £000
Bank balances	**3,067**	5,836
Call deposits	**-**	10,000
Cash and cash equivalents	**3,067**	15,836

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in note 25.

19 Capital and reserves

Share capital

	Ordinary shares At 31 March 2012 £000	At 31 March 2011 £000
Authorised		
500m Ordinary shares of £1 each	**500,000**	500,000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000
Shares classified in Shareholder's funds	**500,000**	500,000

Ordinary shares

At 31 March 2012 the authorised share capital comprised 500 million ordinary shares (2011: 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 2012		At 31 March 2011	
	Statutory distributable reserve £000	**Retained earnings £000**	Statutory distributable reserve £000	Retained earnings £000
At beginning of year	**171,690**	**154,896**	171,690	109,305
Profit for the year	**-**	**114,604**	-	80,458
Dividends on shares classified as Shareholder's funds	**-**	**(25,964)**	-	(36,028)
Actuarial gains / (losses) recognised in the pension scheme	**-**	**1,875**	-	1,569
Deferred tax arising on losses / (gains) in the pension scheme	**-**	**(419)**	-	(408)
Shares not held for trading – revaluation losses	**-**	**(19)**	-	-
	171,690	**244,973**	171,690	154,896

Statutory distributable reserve

The statutory distributable reserve was established under enabling legislation.

19 Capital and reserves (continued)

Dividends
The following dividends were declared and paid by the Company.

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
5.19 pence per allotted ordinary share (2011: 7.21 pence)	**25,964**	36,028

20 Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and liquidity risk, see note 25.

	At 31 March 2012 £000	At 31 March 2011 £000
Non-current liabilities		
Capital loan notes	**807,560**	737,560
Finance lease liabilities	**221,950**	229,983
	1,029,510	967,543
Current liabilities		
Current portion of finance lease liabilities	**8,164**	7,519
	8,164	7,519

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

			At 31 March 2012		At 31 March 2011	
	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	**180,000**	**180,000**	110,000	110,000
PPP finance lease liabilities – Alpha	5.77%	2028	**101,208**	**101,208**	104,840	104,840
PPP finance lease liabilities – Omega	3.63%	2028	**124,153**	**124,153**	127,291	127,291
PPP finance lease liabilities - Kinnegar	3.99%	2018	**4,753**	**4,753**	5,371	5,371
			1,037,674	**1,037,674**	975,062	975,062

20 Loans and borrowings (continued)

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

Finance lease liabilities
Finance lease liabilities are payable as follows:

	At 31 March 2012			At 31 March 2011		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments
	£000	**£000**	**£000**	£000	£000	£000
Less than one year	**30,096**	**21,932**	**8,164**	29,611	22,092	7,519
Between one and five years	**122,756**	**85,443**	**37,313**	120,952	86,460	34,492
More than 5 years	**373,306**	**188,669**	**184,637**	405,206	209,715	195,491
	526,158	**296,044**	**230,114**	555,769	318,267	237,502

Finance lease liabilities relate to PPP contracts outlined in note 30.

21 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 £10.8m to its pension plan in 2012/13.

The major assumptions used by the actuary in this disclosure:

	Conditions at 31 March 2012	Conditions at 31 March 2011
Rate of increase in salaries	**4.25%**	4.50%
Rate of increase in pensions in payment and deferred pensions	**3.25%**	3.50%
Discount rate	**5.00%**	5.50%
Inflation assumption	**3.25%**	3.50%

21 Employee benefits (continued)

Composition of the Scheme

The scheme is open to new entrants and therefore the service cost as a percentage of pensionable salaries is expected to remain steady over time. Accrued liabilities are based on approximate calculations carried out by a qualified independent actuary. The scheme's latest actuarial valuation was carried out as at 31 March 2011.

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

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

	Total scheme assets at 31 March 2012	Total scheme assets at 31 March 2011
Asset category		
Equities	**45.00%**	45.00%
Corporate bonds	**20.00%**	20.00%
Gilts	**30.00%**	30.00%
Other	**5.00%**	5.00%
	100.00%	100.00%

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.

21 Employee benefits (continued)

Scheme assets and liabilities

	Total at 31 March 2012 £000	Total at 31 March 2011 £000
Equities	**60,488**	52,410
Corporate bonds	**24,443**	21,301
Gilts	**38,880**	34,581
Other	**6,384**	5,050
Total market value of assets	**130,195**	113,342
Actuarial value of liabilities	**(120,652)**	(107,145)
Surplus in the scheme - pension asset	**9,543**	6,197
Related deferred tax liability	**(2,291)**	(1,612)
Net pension asset	**7,252**	4,585

Expected rates of return on the assets in the scheme

	Conditions at 31 March 2012	Conditions at 31 March 2011
Equities	**6.50%**	7.50%
Corporate Bonds	**5.00%**	5.75%
Gilts	**3.50%**	4.50%
Other	**6.50%**	7.50%
Weighted Return	**5.30%**	6.19%

21 Employee benefits (continued)

Changes in the fair value of plan assets

	Total year to 31 March 2012 £000	Total year to 31 March 2011 £000
At the beginning of the year	**113,342**	97,289
Movement in year		
Expected return on assets	**7,284**	6,350
Contributions by plan participants	**837**	796
Contributions by employer	**11,320**	13,120
Actuarial gain	**458**	1,501
Benefits paid	**(2,628)**	(2,797)
Settlement in relation to adjustment to Omega bulk transfer	**(191)**	-
Settlement in relation to adjustment to PCSPS bulk transfer	**276**	-
Settlement in relation to admission of Northgate as a participating employer	**(503)**	-
Experience adjustment following receipt of bulk transfer	**-**	(2,917)
	130,195	113,342

21 Employee benefits (continued)

Analysis of the present value of the defined benefit obligations

	Total year to 31 March 2012 £000	Total year to 31 March 2011 £000
At the beginning of the year	**107,145**	94,114
Movement in year		
Current service cost	**10,310**	11,269
Interest on scheme liabilities	**6,128**	5,675
Past service costs	**695**	1,073
Actuarial gain	**(1,417)**	(68)
Contributions by plan participants	**837**	796
Benefits paid	**(2,628)**	(2,797)
Settlement in relation to adjustment to Omega bulk transfer	**(191)**	-
Settlement in relation to adjustment to PCSPS bulk transfer	**276**	-
Settlement in relation to admission of Northgate as a participating employer	**(503)**	-
Experience adjustment following receipt of bulk transfer	**-**	(2,917)
	120,652	107,145

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

	Total year to 31 March 2012 £000	Total year to 31 March 2011 £000
Current service costs (operating costs - staff costs)	**10,310**	11,269
Past service costs (operating costs - staff costs)	**695**	1,073
Total operating charge	**11,005**	12,342

21 Employee benefits (continued)

Analysis of amounts included in other finance income

	Total year to 31 March 2012	Total year to 31 March 2011
	£000	£000
Total operating charge (brought forward)	**(11,005)**	(12,342)
Expected return on pension scheme assets	**7,284**	6,351
Interest on pension scheme liabilities	**(6,128)**	(5,675)
Other finance income	**1,156**	676
Total charge to profit	**(9,849)**	(11,666)

Analysis of amount recognised in statement of changes in equity

	Total year to 31 March 2012 £000	Total year to 31 March 2011 £000
Cumulative amount of actuarial gains recognised in other comprehensive income (brought forward)	**12,401**	10,832
Actual return less expected return on scheme assets	**458**	1,501
Experience gains and losses	**5,595**	-
Changes in assumptions underlying the present value of scheme liabilities	**(4,178)**	68
Actuarial gain recognised in other comprehensive income	**1,875**	1,569
Cumulative amount of actuarial gains recognised in other comprehensive income (before deferred tax)	**14,276**	12,401

	Total year to 31 March 2012	Total year to 31 March 2011
	£000	£000
Actual return on plan assets	**7,742**	7,851

21 Employee benefits (continued)

History of experience gains and losses

	2011/12	2010/11	2009/10	2008/09	2007/08
Experience gains and (losses) on scheme liabilities:					
Amount (£000)	**5,595**	-	(24)	(68,458)	33
Percentage of scheme liabilities	**5%**	-	-	(115)%	-
Difference between actual and expected return on scheme assets:					
Amount (£000)	**458**	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 2011/12 %	**Change in liability 2011/12 £000**	Change in liability 2010/11 %	Change in liability 2010/11 £000
+ or - 0.25% in discount rate	**6.0%**	**7,000**	5.0%	5,000
+ or - 0.25% in rate of inflation	**5.7%**	**7,000**	5.4%	5,000
+ or - 0.25% in salary inflation	**2.4%**	**3,000**	1.9%	2,000
Increase in life expectancy of 1 year	**2.1%**	**3,000**	2.1%	2,000

22 Deferred income

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

	At 31 March 2012 £000	At 31 March 2011 £000
Government grants	**7,317**	7,657
Miscellaneous income	**2,881**	101
	10,198	7,758
Non-current	**6,968**	7,310
Current	**3,230**	448
	10,198	7,758

22 Deferred income (continued)

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

23 Provisions

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Balance at 1 April 2011	3,869	1,023	7,053	285	7,800	**20,030**
New Provisions	1,922	106	-	-	3,002	**5,030**
Utilised	(1,059)	(319)	-	(110)	-	**(1,488)**
Amounts released unused	(2,052)	(162)	-	-	-	**(2,214)**
Balance at 31 March 2012	**2,680**	**648**	**7,053**	**175**	**10,802**	**21,358**
Non-current	1,432	486	6,546	25	679	**9,168**
Current	1,248	162	507	150	10,123	**12,190**
	2,680	**648**	**7,053**	**175**	**10,802**	**21,358**

Public and employer liability claims
The public liability and employer liability claims at 31 March 2012 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 28. 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, the NIEA.

23 Provisions (continued)

Early retirement provisions

The early retirement provision relates to those retirement benefits accruing to those members who took early retirement prior to 1 April 2007. The provision represents the total of retirement benefits due to those members from 31 March 2012 to their official date of retirement. These payments are made on a monthly basis to the DFP and the amounts and timing of these should not be subject to any uncertainty.

Other provisions

Other provisions relate to:

i) claims arising from contractual arrangements with suppliers (including operators of PPP arrangements). These provisions of £10,123k (2011: £7,118k) represent management's best estimates of the potential liability that might arise from claims submitted by these contractors. 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 28. The contingent liability for contractor claims of £22m includes an amount relating to the value of claims above the provision included in the financial statements; and

ii) management's best estimates of the value of unused staff holiday entitlement at the year end of £679k (2011: £682k).

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

31 March 2012

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

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**

24 Trade and other payables

	At 31 March 2012 £000	At 31 March 2011 £000
Trade payables to related parties (see note 29)	**523**	1,016
Payments received on account	**885**	1,242
Trade payables	**11,308**	9,019
Taxation and social security	**1,083**	1,119
Accruals	**95,147**	91,884
	108,946	104,280

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

Other payables

	At 31 March 2012 £000	At 31 March 2011 £000
Non-current	**1,044**	1,377
Current	**5,932**	5,871
	6,976	7,248

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

25 Financial instruments

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

	Note	At 31 March 2012 £000	At 31 March 2011 £000
Equity securities	*14*	**87**	106
Loans and receivables	*17*	**21,960**	20,397
Cash and cash equivalents	*18*	**3,067**	15,836
		25,114	36,339

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

25 Financial instruments (continued)

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

	Carrying amount	
	At 31 March 2012	At 31 March 2011
	£000	£000
End-user customers	**10,939**	11,354
Other	**11,021**	9,043
	21,960	20,397

The maximum exposure to cash and cash equivalents (note 18) is £3,067k (2011: £15,836k).

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

	Gross	**Impairment**	Gross	Impairment
	At 31 March 2012		At 31 March 2011	
	£000	**£000**	£000	£000
Not past due	**30,228**	**236**	23,350	1,001
Past due 0-30 days	**1,214**	**43**	3,170	511
Past due 31-60 days	**70**	**19**	1,895	115
Past due 61-90 days	**812**	**20**	1,009	170
Past due 91-120 days	**747**	**154**	570	287
Past due 121-150 days	**572**	**199**	480	315
Past due 151-365 days	**2,298**	**1,418**	2,981	1,994
Past due 1-2 years	**2,111**	**2,029**	1,424	1,424
Past due 2+ years *	**3,203**	**1,784**	2,641	1,417
	41,255	**5,902**	37,520	7,234

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.

There are no individual customers who account for more than 5% of total net trade receivable balances (except in relation to VAT receivable see note 17).

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

25 Financial instruments (continued)

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

	At 31 March 2012 £000	At 31 March 2011 £000
Not past due	**29,642**	23,565
Past due 0-30 days	**1,293**	2,931
Past due 31-60 days	**150**	1,079
Past due 61-90 days	**186**	685
Past due 91-120 days	**655**	830
Past due 121-150 days	**425**	638
Past due 151-365 days	**2,177**	2,305
Past due 1-2 years	**2,083**	2,384
Past due 2+ years	**4,644**	3,103
	41,255	37,520

This analysis takes an alternative view of aging with most customer balances allocated to the aging category of the oldest invoice outstanding on that account. Certain customer balances have not been restated in this way as it has been assumed that there is no additional risk of non-collection on these accounts due to the existence of the older unpaid invoices on the account. These accounts include customers in the public sector, key accounts, customers on direct debit or repayment plans and accounts with invoices under query.

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

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Balance at 1 April	**7,234**	6,141
New provisions	**1,484**	2,186
Bad debt provision utilised	**(1,316)**	(1,093)
Provision released unused	**(1,500)**	-
Balance at 31 March	**5,902**	7,234

25 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 2012

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6 -12 months £000	1 - 2 years £000	2 - 5 years £000	More than 5 years £000
Capital loan notes	**807,560**	(1,424,077)	(20,601)	(20,483)	(41,078)	(123,347)	(1,218,568)
Finance lease liabilities	**230,114**	(526,157)	(15,048)	(15,048)	(29,724)	(93,031)	(373,306)
Trade and other payables	**115,922**	(115,922)	(114,878)	-	-	(1,044)	-
	1,153,596	(2,066,156)	(150,527)	(35,531)	(70,802)	(217,422)	(1,591,874)

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

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)

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

25 Financial instruments (continued)

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

	Carrying amount	
	At 31 March 2012	At 31 March 2011
	£000	£000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,037,674)**	(975,062)
	(1,037,674)	(975,062)
Variable rate instruments		
Financial assets	**-**	-
Financial liabilities	**-**	-
	-	-

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

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

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

25 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 2011						
Cash and cash equivalents	*18*	-	15,836	-	15,836	15,836
Loans and receivables	*17*	-	20,397	-	20,397	20,397
Investment securities:						
- Equity securities	*14*	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)
Loans and borrowings		-	-	(737,560)	(737,560)	(758,045)
		-	-	(1,079,342)	(1,079,342)	(1,099,827)

26 Operating leases

Leases as lessee

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

	At 31 March 2012 £000	At 31 March 2011 £000
Less than one year	**379**	925
Between one and five years	**127**	219
	506	1,144

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 2012 an amount of £788k was recognised as an expense in profit or loss in respect of operating leases (2011: £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.

27 Capital commitments

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

	At 31 March 2012 £000	At 31 March 2011 £000
Contracted	**84,160**	78,127

In addition to the above, at the end of the financial year the Company had entered into commitments amounting to £496m (2011: £503m). These commitments relate to planned future capital spend. The contracted amount of £84m is in relation to actual spend contracted with suppliers to date.

28 Contingencies

The Company is disputing liability in some public and employer liability cases. The estimate of the financial effect is £1.0m (2011: £1.0m). It has been estimated that there is less than a 50% chance of these cases leading to a loss. If such a loss should arise there is no possibility of any reimbursement. In addition, the Company is disputing a number of claims from contractors amounting to £22m (2011: £5.1m) 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 2012 £000	At 31 March 2011 £000
Public and employer liability	**1,046**	1,047
Contractor Claims	**22,000**	5,058
	23,046	6,105

Debenture to the DRD

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

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

28 Contingencies (continued)

Contingent assets

The Company received a number of cash performance bonds from customers in relation to requisition of water mains and sewerage services. The balance of cash bonds held at 31 March 2012 is £2.34m and this balance is included in trade and other payables (see note 24). The bond would only be recognised in income when customers are in default of agreed conditions. The Company has also received a number of paper performance bonds issued by banks and the National House Building Council (NHBC) on behalf of customers in relation to requisition of water mains and sewerage services. These are not recognised in the financial statements. The value of paper bonds held at 31 March 2012 is £13.74m. These items are considered contingent assets as an inflow of economic benefits is considered to be remote as there is no information available at this time that would indicate that the performance bonds are likely to be presented to the issuing party in respect of non-performance by the customer.

29 Related parties

Parent and ultimate controlling party

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

	At 31 March 2012 £000	At 31 March 2011 £000
Subsidy		
Revenue subsidy from the DRD (credited to revenue)	**269,162**	263,241
Revenue relating to Road Drainage (credited to revenue)	**20,134**	19,867
Revenue subsidy from the DRD relating to third party contributions (credited to revenue)	**-**	2
Trade receivables - subsidy (included in Trade and other receivables - note 17)	**1,230**	1,102
Other sales to the DRD (credited to revenue)	**1,539**	1,722
Trade receivables - other sales to the DRD (included in Trade receivables - note 17)	**167**	282
Purchases		
Purchases from the DRD (included in operating costs or capital expenditure)	**1,378**	1,550
Trade payables - purchases from the DRD (included in Trade and other payables - note 24)	**523**	1,016
Loans and borrowings		
Loans from the DRD during the year	**70,000**	110,000
Balance on loans from the DRD at year end - note 20	**807,560**	737,560
Loan interest to the DRD - note 9	**39,894**	35,480
Loan interest owed to the DRD at year end	**727**	177
Dividends		
Dividend to Shareholder - note 19	**25,964**	36,028

29 Related parties (continued)

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

Transactions with key management personnel
Key management personnel compensation

Details of the key management personnel post-employment defined benefit plan and termination benefits are included in the Directors' remuneration report on pages 99 to 104.

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 was also a Non-Executive Director of Northern Bank Ltd (including various subsidiaries) until June 2011. Northern Bank is the principal banker for the Company.

George Butler is an Executive Director of NI Water. He is also Chairman of NI Water Pension Trust Company and a Director of the UK Water Industry Research Company (UK WIR). During the year the Company purchased £101k (2011:£97k) of services from UK WIR.

30 Service concession agreements

The transfer of ownership of the assets and liabilities of Water Service from an agency of the DRD to 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 wastewater services.

The capital cost of each contract is included within 'property, plant and equipment' (see note 11) and as PPP creditor in 'loans and borrowings' (see note 20) in the Statement of financial position. 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.

30 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 Property, Plant and Equipment at 31 March 2012 is £11.98m and £7.60m respectively (2011: £11.82m, £7.78m). The amount included in PPP Creditors at 31 March 2012 is £4.75m (2011: £5.37m).

Alpha
A contract with Dalriada Water Limited was signed on 30 May 2006 for the provision of bulk drinking Water supplies. This has a capital cost in the region of £111 million. The service provision commenced roll-out from November 2008. The contract is for 25 years with an end date of 29 May 2031. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2012 is £116.25m and £102.84m respectively (2011: £115.96m, £107.37m). The amount included in PPP Creditors at 31 March 2012 is £101.21m (2011: £104.84m).

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 Property, Plant and Equipment at 31 March 2012 is £139.96m and £127.53m respectively (2011: £142.19, £133.68m). The amount included in PPP Creditors at 31 March 2012 is £124.15m (2011: £127.29m).

Significant terms

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

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

Nature and extent of rights and obligations

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

30 Service concession agreements (continued)

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

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

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

Independent Auditors' Report to the Members of Northern Ireland Water Limited

We have audited the financial statements of Northern Ireland Water Limited for the year ended 31 March 2012 which comprise the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. 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 105 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 31 March 2012 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 Auditors' Report to the Members of Northern Ireland Water Limited (continued)

Opinion on regularity

In our opinion, in all material respects, the expenditure (disbursed) and income (received) have been applied to the purposes intended by the Department for Regional Development as set out in their direction to the Company of 18 November 2010 and the financial transactions conform to the authorities which govern them.

Further details in respect of the regularity of expenditure can be found in our report on page 212.

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
2 July 2012

REGULATORY ACCOUNTS

Milltown Waste Water Treatment Works, Co Antrim.

Introduction

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

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

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

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

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

  (i) management resources;

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

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

For and on behalf of the Board

Trevor Haslett
Chief Executive
27 June 2012

HISTORICAL COST FINANCIAL STATEMENTS

Profit and loss account

	Year to 31 March 2012			Year to 31 March 2011		
	Appointed business	**Non – Appointed business**	**Total**	Appointed business	Non-Appointed business	Total
	£000	**£000**	**£000**	£000	£000	£000
Turnover	**354,819**	**4,979**	**359,798**	345,740	4,454	350,194
Operating costs	**(200,465)**	**(3,479)**	**(203,944)**	(212,535)	(2,998)	(215,533)
Historical cost depreciation	**(46,216)**	**(16)**	**(46,232)**	(41,689)	(16)	(41,705)
Operating profit	**108,138**	**1,484**	**109,622**	91,516	1,440	92,956
Net interest receivable/(payable)	**(50,468)**	**18**	**(50,450)**	(47,520)	11	(47,509)
Profit on ordinary activities before taxation	**57,670**	**1,502**	**59,172**	43,996	1,451	45,447
Taxation on profit on ordinary activities:						
Deferred tax	**(18,472)**	**(323)**	**(18,795)**	(31,433)	(281)	(31,714)
Profit on ordinary activities after taxation	**39,198**	**1,179**	**40,377**	12,563	1,170	13,733
Dividends	**(25,604)**	**(360)**	**(25,964)**	(35,570)	(458)	(36,028)
Retained profit/(loss) for the financial year	**13,594**	**819**	**14,413**	(23,007)	712	(22,295)

Balance sheet

	At 31 March 2012			At 31 March 2011		
	Appointed business £000	**Non – Appointed business £000**	**Total £000**	Appointed business £000	Non-Appointed business £000	Total £000
Fixed assets						
Tangible assets	**1,822,992**	**113**	**1,823,105**	1,713,802	129	1,713,931
Investments	**106**	**-**	**106**	106	-	106
	1,823,098	**113**	**1,823,211**	1,713,908	129	1,714,037
Current assets						
Stocks	**2,177**	**6**	**2,183**	1,863	6	1,869
Debtors	**33,783**	**327**	**34,110**	28,797	265	29,062
Infrastructure renewals prepayment	**2,734**	**-**	**2,734**	-	-	-
Cash at bank and in hand	**(2,340)**	**5,407**	**3,067**	11,728	4,108	15,836
	36,354	**5,740**	**42,094**	42,388	4,379	46,767
Creditors: amounts falling due within one year						
Payments received on account	**(3,768)**	**-**	**(3,768)**	(1,342)	-	(1,342)
Trade creditors	**(11,712)**	**(119)**	**(11,831)**	(9,498)	-	(9,498)
Taxation and social security	**(1,082)**	**-**	**(1,082)**	(1,120)	-	(1,120)
Other creditors	**(6,769)**	**-**	**(6,769)**	(6,121)	-	(6,121)
Accruals and deferred income	**(93,993)**	**(317)**	**(94,310)**	(91,936)	(234)	(92,170)
Deferred grants and contributions	**(1,075)**	**-**	**(1,075)**	(651)	-	(651)
PPP finance lease	**(3,274)**	**-**	**(3,274)**	(3,593)	-	(3,593)
Infrastructure renewals accrual	**-**	**-**	**-**	(3,044)	-	(3,044)
	(121,673)	**(436)**	**(122,109)**	(117,305)	(234)	(117,539)
Net current (liabilities)/assets	**(85,319)**	**5,304**	**(80,015)**	(74,917)	4,145	(70,772)
Total assets less current liabilities	**1,737,779**	**5,417**	**1,743,196**	1,638,991	4,274	1,643,265
Creditors: amounts falling due after more than one year						
Loans and other borrowings	**(807,560)**	**-**	**(807,560)**	(737,560)	-	(737,560)
Other creditors	**(116,560)**	**-**	**(116,560)**	(119,696)	-	(119,696)
	(924,120)	**-**	**(924,120)**	(857,256)	-	(857,256)
Provisions for liabilities and charges						
Deferred tax provision	**(162,493)**	**(1,299)**	**(163,792)**	(144,282)	(976)	(145,258)
Other provisions	**(20,679)**	**-**	**(20,679)**	(19,349)	-	(19,349)
	(183,172)	**(1,299)**	**(184,471)**	(163,631)	(976)	(164,607)
Pension asset	**7,253**	**-**	**7,253**	4,586	-	4,586
Net Assets	**637,740**	**4,118**	**641,858**	622,690	3,298	625,988
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	**(33,950)**	**4,118**	**(29,832)**	(49,000)	3,298	(45,702)
Shareholder's funds	**637,740**	**4,118**	**641,858**	622,690	3,298	625,988

These financial statements were approved and authorised for issue by the Board of Directors on the 27 June 2012 and were signed on its behalf by:

Trevor Haslett

Trevor Haslett
Chief Executive
27 June 2012

Statement of total recognised gains and losses

	Year to 31 March 2012			Year to 31 March 2011		
	Appointed business	**Non – Appointed business**	**Total**	Appointed business	Non-Appointed business	Total
	£000	**£000**	**£000**	£000	£000	£000
Profit for the financial year	**39,198**	**1,179**	**40,377**	12,563	1,170	13,733
Actuarial gain recognised in the pension scheme	**1,875**	**-**	**1,875**	1,568	-	1,568
Deferred tax arising on gains in the pension scheme	**(419)**	**-**	**(419)**	(408)	-	(408)
Total recognised gains and losses relating to the financial year	**40,654**	**1,179**	**41,833**	13,723	1,170	14,893

Reconciliation between Statutory Accounts and historic cost Regulatory Accounts for the appointed and non-appointed business

The Company's Statutory Accounts are prepared under IFRS and this is reflected in its Statutory Accounts for the year ended 31 March 2012. However the Regulatory Accounts are prepared on the basis of Regulatory Accounting Guidelines and UK GAAP. The principal differences between the Company's Statutory Accounts and its Regulatory Accounts are set out below.

Profit and loss account / Statement of comprehensive income	**Year to 31 March 2012 £000**
a) Operating profit / Results from operating activities	
Per Regulatory Accounts	109,622
Difference in income under IFRIC 18	53,557
Difference in infrastructure accounting	19,402
Difference in depreciation - non infrastructure	(1,088)
Difference in amortisation of grants and contributions	(366)
Difference in treatment of PPP contracts	11,988
Difference in capitalisation of expenditure	(1,084)
Other IFRS / UK GAAP differences	2
Per Statutory Accounts	**192,033**
b) Net interest receivable/(payable) / Net finance costs	
Per Regulatory Accounts	(50,450)
Capitalised interest under IFRS	1,775
Notional lease interest on PPP assets reclassified under IFRS	(9,959)
Per Statutory Accounts	**(58,634)**
c) Deferred taxation/ Income tax expense	
Per Regulatory Accounts	(18,795)
Per Statutory Accounts	**(18,795)**

Reconciliation between Statutory Accounts and historic cost Regulatory Accounts for the appointed and non-appointed business (continued)

Balance sheet / Statement of financial position	At 31 March 2012 £000
a) Fixed Assets / Property, plant and equipment	
Cost	
At 31 March per Regulatory Accounts	**2,127,036**
Reverse regulatory infrastructure (accrual) / prepayment	2,734
Intangible assets separately identified under IFRS	(45,139)
Investment properties separately identified under IFRS	(28,238)
Assets identified as classified as held for sale	(3,136)
Difference in capitalisation of expenditure	(13,167)
Capitalised interest under IFRS	2,965
PPP assets treated 'on balance sheet' under IFRS	133,442
Capital contributions treated differently under IFRS	169,977
De-recognition of infrastructure assets	(11,075)
Decommissioning of Omega assets under UK GAAP	6,939
At 31 March per Statutory Accounts	**2,342,338**
Depreciation	
At 31 March per Regulatory Accounts	**303,931**
Intangible assets separately identified under IFRS	(16,477)
Investment properties separately identified under IFRS	(17,442)
Assets identified as classified as held for sale	(2,809)
Difference in depreciation of infrastructure assets	(110,234)
Difference in depreciation of non-infrastructure assets	11,801
De-recognition of infrastructure assets	(11,075)
Decommissioning of Omega assets under UK GAAP	6,763
At 31 March per Statutory Accounts	**164,458**
b) Debtors due in less than one year / trade and other receivables	
At 31 March per Regulatory Accounts	**34,110**
Prepayments shown separately in IFRS statement	(13,393)
Capital maintenance prepayment for IFRS PPP reclassified assets	1,243
At 31 March per Statutory Accounts	**21,960**

Reconciliation between Statutory Accounts and historic cost Regulatory Accounts for the appointed and non-appointed business (continued)

Balance sheet/ Statement of financial position	**At 31 March 2012 £000**
c) Provisions	
At 31 March per Regulatory Accounts	**20,679**
Holiday pay provision under IFRS	679
At 31 March per Statutory Accounts	21,358
Provisions classified as non-current liabilities	9,168
Provisions classified as current liabilities	12,190
At 31 March per Statutory Accounts	**21,358**
d) Loans and borrowings	
At 31 March per Regulatory Accounts	**807,560**
Finance leases for PPP assets (Omega and Kinnegar) reclassified under IFRS	128,906
Alpha PPP lease liability reclassified under IFRS from other creditors (amounts falling due after more than one year)	97,934
Alpha PPP lease liability reclassified under IFRS from PPP finance lease (amounts falling due within one year)	3,274
At 31 March per Statutory Accounts	1,037,674
Loans and borrowings classified as non-current liabilities	1,029,510
Loans and borrowings classified as current liabilities	8,164
At 31 March per Statutory Accounts	**1,037,674**

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Profit and loss account for the appointed business

	Note	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Turnover	3	**354,819**	345,740
Current cost operating costs	4	**(355,177)**	(341,824)
Current cost profit / (loss) on disposal of fixed assets	3	**(285)**	79
Working capital adjustment	3,8	**2,824**	4,898
Current cost operating profit		**2,181**	8,893
Net interest payable		**(50,468)**	(47,520)
Financing adjustment	8	**30,450**	40,427
Current cost (loss) / profit before taxation		**(17,837)**	1,800
Taxation on profit on ordinary activities:			
Deferred tax		**(18,472)**	(31,433)
Current cost loss attributable to Shareholder		**(36,309)**	(29,633)
Dividends		**(25,604)**	(35,570)
Current cost loss retained	7	**(61,913)**	(65,203)

Balance Sheet for the appointed business

	Note	At 31 March 2012 £000	At 31 March 2012 £000	At 31 March 2011 £000	At 31 March 2011 £000
Fixed assets					
Tangible assets	5	**8,147,759**		7,825,616	
Third party contributions		**(255,418)**		(198,736)	
			7,892,341		7,626,880
Working capital	6	**(80,503)**		(79,116)	
Cash	9	**(2,340)**		(3,272)	
Short term deposits	9	**-**		15,000	
Infrastructure renewals (accrual)/ prepayment		**2,734**		(3,044)	
			(80,109)		(70,432)
Non-operating assets and liabilities					
Non-trade debtors		**6**		10	
Non-trade creditors due within one year		**(4,141)**		(3,844)	
Investments		**106**		106	
Total non-operating liabilities			**(4,029)**		(3,728)
Creditors: amounts falling due after more than one year					
Borrowings		**(807,560)**		(737,560)	
Other creditors		**(98,978)**		(102,624)	
			(906,538)		(840,184)
Provisions for liabilities and charges					
Deferred tax provision		**(162,493)**		(144,282)	
Other provisions		**(20,679)**		(19,349)	
			(183,172)		(163,631)
Pension assets			**7,253**		4,586
Net assets			**6,725,746**		6,553,491
Capital and reserves					
Called up share capital			**500,000**		500,000
Distributable reserve			**171,690**		171,690
Profit and loss account	7		**(287,995)**		(227,538)
Current cost reserves	8		**6,342,051**		6,109,339
Shareholder's funds			**6,725,746**		6,553,491

These financial statements were approved and authorised for issue by the Board of Directors on 27 June 2012 and were signed on its behalf by:

Trevor Haslett
Chief Executive
27 June 2012

Reconciliation of movements in Shareholder's funds

	Year to 31 March 2012	Year to 31 March 2011
	£000	£000
Loss for the financial year	**(36,309)**	(29,633)
Dividends on shares classified in Shareholder's funds	**(25,604)**	(35,570)
Retained loss	**(61,913)**	(65,203)
Other recognised gains relating to the year (net)	**1,456**	1,160
Profit and loss account	**(60,457)**	(64,043)
Increase in current cost reserves	**232,712**	329,540
Net addition to Shareholder's funds	**172,255**	265,497
Opening Shareholder's funds	**6,553,491**	6,287,994
Closing Shareholder's funds	**6,725,746**	6,553,491

Cash flow statement

	Year to 31 March 2012			Year to 31 March 2011		
	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)	**179,166**	**1,640**	**180,806**	151,177	1,488	152,665
Returns on investments and servicing of finance						
Interest received	**114**	**18**	**132**	212	11	223
Interest paid	**(39,337)**	**-**	**(39,337)**	(34,640)	-	(34,640)
Interest element of finance lease	**(11,750)**	**-**	**(11,750)**	(12,215)	-	(12,215)
Net cash (outflow)/inflow from returns on investments and servicing of finance	**(50,973)**	**18**	**(50,955)**	(46,643)	11	(46,632)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	**(153,100)**	**-**	**(153,100)**	(156,548)	-	(156,548)
Grants and contributions received	**5,618**	**-**	**5,618**	6,887	-	6,887
Infrastructure renewals expenditure	**(35,847)**	**-**	**(35,847)**	(24,897)	-	(24,897)
Disposal of fixed assets	**304**	**-**	**304**	251	-	251
Net cash outflow from investing activities	**(183,025)**	**-**	**(183,025)**	(174,307)	-	(174,307)
Equity dividends paid to shareholders	**(25,604)**	**(360)**	**(25,964)**	(35,570)	(458)	(36,028)
Cash (outflow)/inflow before management of liquid resources and financing	**(80,436)**	**1,298**	**(79,138)**	(105,343)	1,041	(104,302)
Management of liquid resources	**15,000**	**-**	**15,000**	(5,000)	-	(5,000)
Cash (outflow)/inflow from management of liquid resources	**15,000**	**-**	**15,000**	(5,000)	-	(5,000)
Net cash flow before financing	**(65,436)**	**1,298**	**(64,138)**	(110,343)	1,041	(109,302)
Financing						
Loans advanced	**70,000**	**-**	**70,000**	110,000	-	110,000
Capital element of finance lease repayments	**(3,632)**	**-**	**(3,632)**	(3,278)	-	(3,278)
Net cash inflow from financing	**66,368**	**-**	**66,368**	106,722	-	106,722
Net (decrease)/increase in cash	**932**	**1,298**	**2,230**	(3,621)	1,041	(2,580)

Notes to the Regulatory Accounts

1 Regulatory reporting

The Regulatory Accounts should be read in conjunction with the Business Review on pages 1 to 76, for further understanding of the performance of the business.

The Directors' report provides information on the dividend policy on page 78 and on 'Disclosure of information to auditors' on page 81.

The Directors' remuneration report is on pages 99 to 104 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 2012.

2 Accounting policies

(a) Basis of preparation
The Regulatory Accounts have been prepared on such a basis as to comply with the requirements of the Utility Regulator. These requirements 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 Utility Regulator and modified where required for conditions prevalent in Northern Ireland, the accounting policies set out in these notes and, in the case of the Regulatory Historic Cost Accounts, under the historical cost convention.

The Regulatory Accounts have been prepared on a going concern basis notwithstanding the net current liabilities. The Directors are content to adopt this approach for the following reasons:

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

(b) General
The regulatory accounting policies are based on UK Generally Accepted Accounting Practice (UK GAAP). The Statutory Accounts are based on International Financial Reporting Standards (IFRS). A reconciliation between the Statutory Accounts and the historic cost Regulatory Accounts for the appointed and non-appointed business is included in the Regulatory Accounts (pages 171 to 173). The significant differences between the accounting policies adopted in the Statutory Accounts and those adopted for the Regulatory Accounts are summarised below:

2 Accounting policies (continued)

(c) Tangible fixed assets and depreciation
The value of tangible fixed assets at 1 April 2007 included in the current cost accounts are based on the closing balances included in the DRD Water Service's audited accounts at 31 March 2007 prior to the application of the impairment adjustment. The current cost values in the DRD Water Service were based on an asset management plan which reported at 1 September 2001 and which was updated to include subsequent expenditure and indexed to reflect inflation. Assets with an open market value, including surplus land, were separately valued at 31 March 2007 and these values have been adopted at 1 April 2007.

The RAGs and any modifications issued by the Utility Regulator have been followed in the preparation of the current cost accounts.

There are ongoing discussions with the Utility Regulator on the need for NI Water to revalue its assets on a Modern Equivalent Asset Value (MEAV) basis, in accordance with the RAGs. This has not been required by the Regulator as part of PC13 and is currently not a requirement from the Regulator for PC15. NI Water will also continue to evaluate the need for such an exercise as an element of its asset management planning process.

Tangible fixed assets are restated to current value each year. From 2007/08, the Retail Price Index (RPI) has been used to reflect changes in the general level of inflation during the year. Assets in the course of construction are not indexed until they are brought into use.

The infrastructure renewals charge (IRC) is part of the renewals accounting approach permitted under UK GAAP but not permitted under IFRS (IFRS requires depreciation of infrastructure assets in line with appropriate asset lives).

The IRC is defined as the annual accounting provision for expenditure on the renewal of infrastructure assets charged to the profit and loss account. It should reflect the Company's assessment of its medium to long term infrastructure renewals expenditure (IRE) needs.

The IRC for NI Water is based on the determination of the PC10. The Utility Regulator determined that the IRC should be set equal to the anticipated IRE for each year of the three years contained within the business plan. The IRE forms part of the PC10 capital expenditure plan.

The IRE in the year ended 31 March 2012 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 which have been replaced are de-recognised under IFRS, whereas the UK GAAP approach in the Regulatory Accounts does not derecognise these replaced assets.

(d) Grants and other third party contributions
Grants, infrastructure and third party contributions include government grants, infrastructure charges, connection charges, requisitioning of water mains or sewers, sewer adoption fees and contributions from third parties. Grants and contributions for capital expenditure, other than infrastructure assets, are credited to a deferral account within creditors and are released to the profit and loss account evenly over the expected useful life of the relevant asset in accordance with the Companies Act 2006.

2 Accounting policies (continued)

Grants, contributions and capital subsidy for capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with the Companies Act 2006 which requires grants and contributions to be shown as deferred income, but has been adopted in order to show a true and fair view, in the opinion of the Directors. This approach is consistent with the policy on depreciation of infrastructure assets permitted under UKGAAP and adopted in the Regulatory Accounts as outlined above in note 2(c). Under UKGAAP a provision is made for depreciation of infrastructure assets but this it is not calculated with reference to useful economic lives (UELs). Hence, unlike in the Statutory Accounts under IFRS, capital contributions are not recognised as deferred income and amortised in line with UELs but are deducted directly from the cost of these assets.

Under IFRS, all third party contributions are treated as income at the point of recognition and are credited to turnover. Grants are treated similarly in the Statutory and Regulatory Accounts.

(e) Real financial capital maintenance adjustments
These adjustments are made to historical cost operating profit in order to arrive at profit after the maintenance of financial capital in real terms:

- working capital adjustment – this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock, less trade creditors; and
- financing adjustment – this is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all assets and liabilities in the balance sheet apart from those included in working capital and excluding fixed assets, deferred taxation provision, index linked debt and dividends payable.

(f) Apportionment of costs between the appointed and non-appointed business activities
The non-appointed business relates mainly to septic tank emptying, vehicle maintenance services carried out on behalf of primarily the DRD Roads Service and income associated with aerial masts erected on Company property. A reasonable proportion of operating and other costs have been apportioned to these activities based on turnover and assumptions on the costs incurred. The results from the non-appointed activities are shown in the historical cost financial statements and regulatory cash flow statements.

(g) PPP contracts
The Regulatory Accounts under UK GAAP treat the Alpha project as ‘on balance sheet’ and the Omega and Kinnegar projects as ‘off balance sheet’. This is in line with UK GAAP and the assessment of where the risks and rewards of the contracts reside. Under this approach, the assets associated with Alpha are capitalised and shown on NI Water’s balance sheet, with a corresponding finance lease creditor established. The unitary charges for Alpha are apportioned to the profit and loss account (service charges and finance lease interest) and to the balance sheet (lease repayment and capital maintenance). Under this approach, the Omega and Kinnegar assets are not deemed to be owned by NI Water and 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 2012			Year to 31 March 2011		
	Water services £000	**Sewerage services £000**	**Total £000**	Water services £000	Sewerage services £000	Total £000
Turnover						
Unmeasured – household	**119,300**	**134,000**	**253,300**	118,368	128,232	246,600
Unmeasured – non household	**2,287**	**2,591**	**4,878**	2,495	2,721	5,216
Total unmeasured	**121,587**	**136,591**	**258,178**	120,863	130,953	251,816
Measured – non household	**40,761**	**22,178**	**62,939**	37,791	20,997	58,788
Total measured	**40,761**	**22,178**	**62,939**	37,791	20,997	58,788
Trade effluent	**-**	**3,543**	**3,543**	-	3,608	3,608
Large user and special agreements	**5,553**	**3,881**	**9,434**	5,927	4,180	10,107
Total trade effluent and large user special agreements	**5,553**	**7,424**	**12,977**	5,927	7,788	13,715
Rechargeable works	**73**	**74**	**147**	492	492	984
Other third party services	**216**	**20,362**	**20,578**	329	20,108	20,437
Total third party services	**289**	**20,436**	**20,725**	821	20,600	21,421
Total turnover	**168,190**	**186,629**	**354,819**	165,402	180,338	345,740

	Year to 31 March 2012			Year to 31 March 2011		
	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	**181**	**(466)**	**(285)**	35	44	79
Working capital adjustment	**2,824**	**-**	**2,824**	4,898	-	4,898

4a Analysis of operating costs and tangible fixed assets

	Year to 31 March 2012							
	Water Services			Sewerage Services				
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	**Total £000**
Direct costs								
Employment costs	3,882	11,791	15,673	3,574	4,879	1,161	9,614	**25,287**
Power	10,662	3,372	14,034	4,463	9,861	3,112	17,436	**31,470**
Hired and contracted services	2,479	5,856	8,335	6,526	1,669	2,669	10,864	**19,199**
Materials and consumables	3,622	505	4,127	146	839	222	1,207	**5,334**
Other direct costs	5	9	14	10	4	1	15	**29**
Total direct costs	**20,650**	**21,533**	**42,183**	**14,719**	**17,252**	**7,165**	**39,136**	**81,319**
General and support expenditure	9,332	10,259	19,591	6,831	7,976	3,420	18,227	**37,818**
Total functional expenditure	**29,982**	**31,792**	**61,774**	**21,550**	**25,228**	**10,585**	**57,363**	**119,137**
Business activities								
Customer services			4,546				4,210	**8,756**
Scientific services			1,438				1,331	**2,769**
Other business activities			991				917	**1,908**
Rates			7,261				6,172	**13,433**
Doubtful debts			88				(268)	**(180)**
Total operating expenditure less third party services			**76,098**				**69,725**	**145,823**
Services for third parties			(9)				-	**(9)**
Total PPP unitary charge			2,051				23,455	**25,506**
Total operating expenditure			**78,140**				**93,180**	**171,320**
Capital costs								
Infrastructure renewals charge			19,454				10,615	**30,069**
Current cost depreciation:								
service activities	44,016	17,880	61,896	3,236	83,415	8,867	95,518	**157,414**
business activities			172				175	**347**
Amortisation of grants			(1,600)				(2,373)	**(3,973)**
Total capital costs			**79,922**				**103,935**	**183,857**
Total operating costs			**158,062**				**197,115**	**355,177**
Analysis of tangible fixed assets – MEAV[33]								
Service activities	811,582	3,086,662	3,898,244	3,047,940	1,163,962	36,013	4,247,915	**8,146,159**
Business activities			1,005				595	**1,600**
Total			**3,899,249**				**4,248,510**	**8,147,759**

[33] 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 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 and 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[34]								
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**

[34] Asset values shown above are based on the valuation method described in note 2(c) to the Regulatory Accounts.

4a and 4b - Analysis of operating costs and tangible fixed assets (continued)

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

All costs relating to business activities such as customers services, scientific services and other, were collated using the relevant cost centre from the General Ledger. The total expenditure attributable to these activities was apportioned to water and sewerage on the basis of the directly coded expenditure.

Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for the year ended 31 March 2012 in respect of infrastructure assets amounted to £9.9m (2011: £10.1m) on water services and £4.7m (2011: £5.3m) 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 2011	900,363	8,426	2,992,961	29,487	**3,931,237**
Opening balance adjustments	(1,197)	111	1,416	2,859	**3,189**
Reallocation of surplus and active market value assets	(8,670)	1,337	-	7,333	**-**
RPI and other adjustments	29,677	352	106,923	1,124	**138,076**
Disposals	(9)	-	(23)	(588)	**(620)**
Additions	21,844	-	31,462	4,110	**57,416**
At 31 March 2012	**942,008**	**10,226**	**3,132,739**	**44,325**	**4,129,298**
Depreciation					
At 1 April 2011	(145,257)	(1,236)	-	(13,618)	**(160,111)**
Opening balance adjustments	(84)	(111)	-	(2,703)	**(2,898)**
Reallocation of surplus and active market value assets	7,745	(979)	-	(6,766)	**-**
RPI and other adjustments	(4,948)	(48)	-	(583)	**(5,579)**
Disposals	5	-	23	579	**607**
Charge for year	(45,284)	(1,004)	(11,706)	(4,074)	**(62,068)**
At 31 March 2012	**(187,823)**	**(3,378)**	**(11,683)**	**(27,165)**	**(230,049)**
Net book value at 31 March 2012	**754,185**	**6,848**	**3,121,056**	**17,160**	**3,899,249**
Net book value at 1 April 2011	755,106	7,190	2,992,961	15,869	3,771,126

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 2011	1,284,859	10,881	2,944,656	40,863	**4,281,259**
Opening balance adjustments	135	162	(1)	168	**464**
Reallocation of surplus and active market value assets	(4,120)	1,923	-	2,197	**-**
RPI and other adjustments	41,712	463	104,667	1,455	**148,297**
Disposals	(13,685)	-	(20,478)	(219)	**(34,382)**
Additions	77,296	-	69,744	2,952	**149,992**
At 31 March 2012	**1,386,197**	**13,429**	**3,098,588**	**47,416**	**4,545,630**
Depreciation					
At 1 April 2011	(200,637)	(1,737)	-	(24,395)	**(226,769)**
Opening balance adjustments	(132)	(162)	-	(124)	**(418)**
Reallocation of surplus and active market value assets	3,220	(1,410)	-	(1,810)	**-**
RPI and other adjustments	(7,103)	(68)	-	(875)	**(8,046)**
Disposals	13,119	-	20,478	209	**33,806**
Charge for year	(68,768)	(605)	(20,478)	(5,842)	**(95,693)**
At 31 March 2012	**(260,301)**	**(3,982)**	**-**	**(32,837)**	**(297,120)**
Net book value at 31 March 2012	**1,125,896**	**9,447**	**3,098,588**	**14,579**	**4,248,510**
Net book value at 1 April 2011	1,084,222	9,144	2,944,656	16,468	4,054,490

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 2011	2,185,222	19,307	5,937,617	70,350	**8,212,496**
Opening balance adjustments	(1,062)	273	1,415	3,027	**3,653**
Reallocation of surplus and active market value assets	(12,790)	3,260	-	9,530	**-**
RPI and other adjustments	71,389	815	211,590	2,579	**286,373**
Disposals	(13,694)	-	(20,501)	(807)	**(35,002)**
Additions	99,140	-	101,206	7,062	**207,408**
At 31 March 2012	**2,328,205**	**23,655**	**6,231,327**	**91,741**	**8,674,928**
Depreciation					
At 1 April 2011	(345,894)	(2,973)	-	(38,013)	**(386,880)**
Opening balance adjustments	(216)	(273)	-	(2,827)	**(3,316)**
Reallocation of surplus and active market value assets	10,965	(2,389)	-	(8,576)	**-**
RPI and other adjustments	(12,051)	(116)	-	(1,458)	**(13,625)**
Disposals	13,124	-	20,501	788	**34,413**
Charge for year	(114,052)	(1,609)	(32,184)	(9,916)	**(157,761)**
At 31 March 2012	**(448,124)**	**(7,360)**	**(11,683)**	**(60,002)**	**(527,169)**
Net book value at 31 March 2012	**1,880,081**	**16,295**	**6,219,644**	**31,739**	**8,147,759**
Net book value at 1 April 2011	1,839,328	16,334	5,937,617	32,337	**7,825,616**

5 Current cost analysis of tangible fixed assets by assets type (continued)

In the preparation of its Statutory Accounts, the Company has adopted IFRS.

The Regulatory Accounts are prepared under UK GAAP except in relation to infrastructure renewals accounting as required by FRS 15 'Tangible Fixed Assets'. FRS 15 is not applied for the purposes of infrastructure renewals accounting within the Regulatory Accounts.

A reconciliation of the tangible fixed assets shown in the Regulatory Accounts to those shown in the Statutory Accounts is set out below:

	Infrastructure Assets £000
Cost	
At 31 March 2012 per Regulatory Accounts	**6,231,327**
Adjustment to opening balance at 1 April 2011[35]	(5,133,951)
Add back capital contributions	169,977
Infrastructure renewals expenditure capitalised in the year	35,847
Decommissioning of Omega assets under UK GAAP	2,522
IFRS adjustments:	
Difference in treatment of capitalisation of expenditure	(13,167)
Capitalised interest	116
Difference in treatment of PPP assets	11,225
De-recognition of assets	(11,075)
At 31 March 2012 per Statutory Accounts	**1,292,821**
Depreciation	
At 31 March 2012 per Regulatory Accounts	**(11,683)**
Depreciation charge for infrastructure expenditure	(37,941)
At 31 March 2012 per Statutory Accounts	**(49,624)**
Net book value	
At 31 March 2012 per Regulatory Accounts	**6,219,644**
Adjustment to opening balance at 1 April 2011	(5,133,951)
Add back capital contributions	169,977
Infrastructure renewals expenditure capitalised in the year	35,847
Decommissioning of Omega assets under UK GAAP	2,522
Depreciation charge for infrastructure expenditure	(37,941)
IFRS adjustments	(12,901)
At 31 March 2012 per Statutory Accounts	**1,243,197**
Infrastructure renewals accrual	
At 31 March 2012 per Regulatory Accounts	**2,734**
Less infrastructure renewals accrual	(2,734)
At 31 March 2012 per Statutory Accounts	**-**

[35] 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 2012 £000	At 31 March 2011 £000
Stocks	**2,177**	1,863
Trade debtors		
– measured non-household	**7,191**	10,908
– unmeasured non-household	**3,084**	-
Other trade debtors	**2,084**	1,021
Measured income accrual	**12,393**	8,761
Prepayments and other debtors	**9,025**	8,097
Trade creditors	**(11,711)**	(9,498)
Deferred income – customer advance receipts	**(3,768)**	(1,342)
Capital creditors	**(56,206)**	(52,697)
Accruals and other creditors	**(44,772)**	(46,229)
	(80,503)	(79,116)

7 Profit and loss reserve

	At 31 March 2012 £000	At 31 March 2011 £000
At 1 April	**(227,538)**	(163,495)
Retained current loss for year	**(61,913)**	(65,203)
FRS 17 actuarial gain	**1,875**	1,568
Deferred tax on actuarial gain	**(419)**	(408)
At 31 March	**(287,995)**	(227,538)

8 Movement on current cost reserve

	At 31 March 2012 £000	At 31 March 2011 £000
At 1 April	**6,109,339**	5,779,799
RPI adjustments:		
Fixed assets	**273,081**	382,447
Grants and third party contributions	**(7,095)**	(7,582)
Working capital	**(2,824)**	(4,898)
Financing	**(30,450)**	(40,427)
At 31 March	**6,342,051**	6,109,339

9 Net debt analysis

Included within creditors falling due within one year is net debt as follows:	**Fixed rate Year to 31 March 2012 £000**	**Total Year to 31 March 2012 £000**	Fixed rate Year to 31 March 2011 £000	Total Year to 31 March 2011 £000
Maturity Profile				
Less than one year	**(3,274)**	**(3,274)**	(3,593)	(3,593)
Between one and two years	**(2,700)**	**(2,700)**	(2,532)	(2,532)
Between two and five years	**(10,800)**	**(10,800)**	(10,128)	(10,128)
Between five and twenty years	**(891,066)**	**(891,066)**	(825,174)	(825,174)
More than twenty years	**(928)**	**(928)**	(973)	(973)
Total borrowings	**(908,768)**	**(908,768)**	(842,400)	(842,400)
Cash	**(2,340)**	**(2,340)**	(3,272)	(3,272)
Short term deposits	**-**	**-**	15,000	15,000
Net debt at 31 March	**(911,108)**	**(911,108)**	(830,672)	(830,672)

10 Reconciliation of historical cost profit / (loss) to current cost loss

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Historical cost profit / (loss)	**14,413**	(22,295)
Less non-appointed activities	**(819)**	(712)
Sub-total historical cost profit / (loss)	**13,594**	(23,007)
Less difference in profit on disposals	**(497)**	(29)
Working capital adjustment	**2,824**	4,898
Financing adjustment	**30,450**	40,427
Add back historical cost depreciation including infrastructure renewals charge	**76,285**	71,082
Less current cost depreciation	**(157,761)**	(132,147)
Less infrastructure renewals charge	**(30,069)**	(29,393)
Add back historical cost amortisation of grant reserve	**(712)**	(634)
Less current cost amortisation of grant reserve	**3,973**	3,600
Current cost loss	**(61,913)**	(65,203)

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

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Current cost operating profit	**2,181**	8,893
Working capital adjustment	**(2,824)**	(4,898)
Movement in working capital	**(2,122)**	7,453
Current cost depreciation	**157,761**	132,147
Current cost loss/(profit) on sale of fixed assets	**285**	(79)
Infrastructure renewals charge	**30,069**	29,393
Other non-cash items		
Amortisation of deferred grants and contributions	**(3,973)**	(3,600)
PPP residual asset credits	**(3,226)**	(3,143)
Excess of pension payments over FRS17 charge	**(315)**	(778)
Pension finance credit included in operating costs	**-**	(676)
Movement in provisions and creditors > 1 year	**1,330**	(13,535)
Net cash inflow from operating activities	**179,166**	151,177

11b Analysis of net debt

	1 April 2011 £000	**Cash flows £000**	**Non cash changes £000**	**31 March 2012 £000**
Cash at bank and in hand	(3,272)	932	-	(2,340)
Deposits and investments	15,000	(15,000)	-	-
	11,728	(14,068)	-	(2,340)
Debt due within one year	(3,593)	-	319	(3,274)
Debt due after one (including PPP liability)	(838,807)	(66,368)	(319)	(905,494)
Total	**(830,672)**	**(80,436)**	**-**	**(911,108)**

12 Regulatory capital value (RCV)

	At 31 March 2012 £000	At 31 March 2011 £000
Revised opening balance at 1 April	**1,622,076**	1,493,018
Capital expenditure[36]	**151,168**	131,100
Infrastructure renewals expenditure	**35,847**	24,897
Infrastructure renewals charge	**(30,069)**	(29,393)
Grants and contributions	**(647)**	(1,122)
Depreciation[37] (adjusted for application of broad equivalence)	**(53,589)**	(36,156)
Closing RCV at 31 March	**1,724,786**	1,582,344
Average RCV	**1,673,431**	1,537,681
Opening RCV		
At 1 April - as originally stated	**1,582,344**	1,421,544
Adjustment to incorporate PC10 Final Determination('FD') Maintenance Non Infrastructure charge (MNI) relating to 2010/11	**(16,178)**	-
Adjustment for all years prior to 2011/12 to exclude PPP residual interest capital additions (including associated indexation)	**-**	(4,301)
Revised opening balance at 1 April	**1,566,166**	1,417,243
Indexation adjustment	**55,910**	75,775
Opening RCV	**1,622,076**	1,493,018

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.

[36] 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. The capital additions during the year ending 31 March 2012 amounted to £3.221m for Omega and Kinnegar and £0.236m for Alpha.
[37] Depreciation has been calculated on a broad equivalence basis and as such is different to the depreciation balance disclosed in note 4.

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

We have audited the Regulatory Accounts of Northern Ireland Water Limited ("the Company") for the year ended 31 March 2012 as set out on pages 167 to 191 which comprise:

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

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

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the Northern Ireland Authority for Utility Regulation ("NIAUR") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Department for Regional Development to Northern Ireland Water Limited as a water and sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the NIAUR those matters that we have agreed to state to them in our report, in order:

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

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

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

Respective responsibilities of the NIAUR, the Directors and the auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 105, the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company. Furthermore, as the nature, form and content of the Regulatory Accounts are determined by the NIAUR, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the NIAUR and the accounting policies set out on pages 178 to 180, the state of the Company's affairs at 31 March 2012 on an historical cost and current cost basis, and its historical cost profit, the current cost loss and its current cost cash flow for the year then ended; and

- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies.

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

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

Emphasis of matter regarding basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

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

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the EU ('IFRSs'). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 168 to 173 have been drawn up in accordance with Regulatory Accounting Guideline 3.06, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on pages 172 to 173.

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

The nature, form and content of Regulatory Accounts are determined by the NIAUR. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the NIAUR's purposes. Accordingly, we make no such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2012 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

KPMG
Chartered Accountants
Belfast
2 July 2012

Notes:

1. The maintenance and integrity of the Company's web site is the responsibility of the Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.

APPENDICES

Silent Valley Reservoir, Mourne Mountains, Co Down.

Appendix A – Key Performance Indicators

This appendix outlines our Key Performance Indicators (KPIs). This includes actual performance for 2010/11 and 2011/12 along with the performance targeted for 2012/13. See ***Appendix B*** for an explanation of the KPIs.

	KPI	Target 2010/11	Actual 2010/11	Target 2011/12	Actual 2011/12	Comments on performance	Target 2012/13
	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	59.060	0.969	0.867	2010/11 performance adversely affected by severe winter weather conditions.	0.939
	12 hours	0.222	26.570	0.211	0.094		0.202
	24 hours	0.010	5.079	0.010	0.002		0.010
2	**Response to billing contacts** (DG6) - number of billing contacts dealt with within 5 working days expressed as a percentage of total billing contacts (%)	99.90	98.87	99.90	99.97	2010/11 performance adversely affected by severe winter weather conditions.	99.90
3	**Response to written complaints** (DG7) - number of written complaints answered within 10 days as a percentage of total written complaints (%)	98.50	99.98	98.50	99.27		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	96.11	97.50	97.88		98.50
5	**Telephone contact** (DG9)						
	% of calls not abandoned	99.00	88.19	99.00	99.15	2010/11 performance adversely affected by severe winter weather conditions. Customer satisfaction score showed improving trend over 2011/12 with fourth quarter performance of 4.67 out of 5.	99.0
	% of calls not all lines busy	99.90	32.77	99.90	100.00		99.9
	Customer satisfaction score (out of five)	4.65	4.59	4.70	4.57		4.70

	KPI	Target 2010/11	Actual 2010/11	Target 2011/12	Actual 2011/12	Comments on performance	Target 2012/13
	Customers						
6	**Inadequate Pressure** (DG2) - number of properties removed from the 'at risk' register due to company action	220	283	237	262		255
7	**Sewer Flooding (DG5) - overload**. Number of properties affected by an incident of internal sewage flooding caused by overload of a sewer (also termed hydraulic incapacity) excluding those incidents resulting from severe weather.	3	4	#	#	Target under review given change to reporting methodology recommended by the Reporter.	#
8	**Sewer flooding (DG5) – other causes**. Number of properties affected by an incident of internal sewage flooding caused by equipment failure in, blockage or collapse of, a sewer (also termed 'other causes')	23	28	23	23	We have proactive maintenance programmes in place to ensure as far as possible its sewer network operates to its optimum and as designed. However, the vast majority of flooding incidents due to 'other causes' result from blockages in our sewer network. Unfortunately a large percentage of these blockages are caused by inappropriate materials being put into the sewer network, something over which we have little control. We are becoming more proactive in making our customers aware of the implications of putting inappropriate materials into the sewer network using various media campaigns and leaflet drops in areas where we have known problems.	23
9	**Sewer Flooding (DG5) – 'at risk'**. Number of properties removed from the risk of sewer flooding.	#	#	#	#	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 aims to have full external and internal historical flood reporting capability in place by April 2013.	#
10	**Leakage** - reduction in overall leakage (million litres per day)	175.00	176.97	171.0	168.23	2010/11 performance adversely affected by severe winter weather conditions.	168.00

	KPI	Target 2010/11	Actual 2010/11	Target 2011/12	Actual 2011/12	Comments on performance	Target 2012/13
	Cash						
11	**Operating margin** - excluding exceptionals (%)	27.4	24.5	34.7	29.0	2010/11 and 2011/12 performance adversely impacted by lower levels of consumption. This was offset in part by the operational cost efficiency savings.	34.5
12	**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	98	96.4	2010/11 performance adversely affected by severe winter weather conditions. Performance in 2011/12 was adversely affected by a number of data quality improvement projects which caused 're-prints', thereby extending the 'read to bill print' time period. Although performance in 2011/12 was slightly less than target, both elements showed around a 4% improvement in performance over 2010/11.	95
	(b) percentage of measured bills issued within 5 working days of a meter including exception readings needing investigation(%)	95	90.94	95	94.8		95
13 Old	**Days sales outstanding** - Average number of days' sales outstanding						
	a) Measured (Days sales outstanding)	91	80			Replaced by target 14 (new)	N/a
	b) Unmeasured (Debtor Days)	76	77			Replaced by target 14 (new)	N/a
14 New	**Customer debt outstanding** - Debtor days (new target for 2011/12)			83	82		87
	People						
15	**Health and safety** –number of 'absence related' accidents	10	4	9	4	NI Water's employees have demonstrated a continued commitment to safe behaviours during this reporting year. The company maintains a zero accident ambition.	8
16	**Headcount** - number of posts	1,289	1,289	1,320	1,306	The increased headcount in 2011/12 reflects the insourcing of certain activities. We achieved the required level of headcount in 2011/12 through natural labour turnover and the 2011/12 Voluntary Early Retirement and Voluntary Severance schemes	1,305

	KPI	Target 2010/11	Actual 2010/11	Target 2011/12	Actual 2011/12	Comments on performance	Target 2012/13
	People						
17	**Employee attendance** - %	96.5	96.6	96.5	97.1		96.7
18	**Employee engagement** – response rate to employee survey (%)	65	61	65	63	We achieved a 63% response rate in the recent survey in October 2011 against a target of 65%. An Employee Engagement workshop was held with the Executive Committee and a number of agreed actions are being taken forward including the establishment of an Employee Forum at which participants from across the business will be tasked with reviewing and developing a corporate action plan. Each Director will schedule a series of meetings with their employees to develop and implement a relevant action plan	65
	KPI	**12 months ended 31 December 2010***		**12 months ended 31 December 2011***		**Comments on performance**	**12 months ended 31/12/12***
		Target	**Actual**	**Target**	**Actual**		**Target**
	Compliance						
19	**Mean zonal compliance** - Water quality at the tap (%)	99.7	99.81	99.7	99.80	Mean zonal compliance, as measured at the customer tap continues to improve, despite changes to drinking water quality regulations. The regulatory limits for taste and odour were reduced by regulatory amendment in 2010 and therefore adversely affected the 2011 outturn. The impact was minimised by improved drinking water quality, in real terms.	99.7

	KPI	12 months ended 31 December 2010*		12 months ended 31 December 2011*		Comments on performance	12 months ended 31/12/12*
		Target	Actual	Target	Actual		Target
	Compliance						
20	**Operational Performance Indicator** (Turbidity, Iron, Manganese) - %	99.10	99.08	99.10	99.31	The OPI TIM water quality performance measure is inherently variable, particularly whilst water mains rehabilitation work is on-going in the distribution system. The measure was designed to assess distribution systems in England and Wales, where mains rehabilitation is largely complete. The outturn this year is above target.	99.10
21	**Wastewater quality** – Wastewater treatment works serving greater than 250 population equivalent achieving compliance with Water Order Consents expressed as a						
	(a) percentage of works (%)	85.0	88.6	85.83	93.28		88.2
	(b) percentage of population equivalent (%)	94.8	95.9	94.83	95.95		96.5
22	**Wastewater Treatment Works passing UWWTW numeric consents** (infraction risk) %	89.9	93.7	91.14	96.20		94.9
23	**Pollution incidents** (high/medium) - number of pollution incidents attributed to NI Water	54	46	51	44		48
	KPI	Target 2010/11	Actual 2010/11	Target 2011/12	Actual 2011/12	Comments on performance	Target 2012/13
24	**Capital Works Programme** - complete 90% of schemes costing over £250k, scheduled to start in the Capital Works Programme	90.00	93.44	90.00	92.86		90.00

Key:
Achieved
Failed
Under Construction / replaced

* Targets 19 to 23 are measured on a calendar year basis (1 January to 31 December). The remaining targets are measured on a financial year basis (1 April to 31 March).
# Target not measured / no target.

Appendix B – Explanation of Key Performance Indicators

Target 1 – Supply interruptions (DG3)

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

Parameters of target **-** defined as the percentage of overall properties connected to the water distribution system that is affected by unplanned interruptions in water supply lasting greater than 6 hours, 12 hours and 24 hours. Unplanned interruptions exclude interruptions caused by third parties and overruns of planned interruptions.

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

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

Target 2 – Response to Billing Contacts (DG6)

Purpose - the purpose of this KPI is to measure the total number of billing contacts received in the reporting year to date and time taken to respond to them.

Parameters of target - the term billing contact refers to any communication; written, telephone or direct contact with customers or their representative about billing issues. These include:

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

Measurement of target - calculated as the number of billing contacts answered within 5 working days as a percentage of total billing contacts received in the year to date. Day of receipt of the contact is treated as day zero and the next working day as day one. This differs from our monthly Service Level Agreement (SLA) contractor reporting, which is expressed as a percentage over total contacts closed.

Sources, assumptions and limitations - telephone customer contact activities are managed through NI Water's Customer Relations Centre with written customer contact activities managed by NI Water's Account Services Team. Both areas are then validated and reported on by Customer Services Delivery Directorate.

Target 3 – Response to Written Complaints (DG7)

Purpose - 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 received in the year. The day of receipt of the contact is treated as day zero and the next working day as day one. Written customer contact activities are managed by NI Water Account Services, then validated and reported on by the Customer Services Delivery Directorate. This differs from our monthly SLA reporting, which is expressed as a percentage over total complaints closed.

Sources, assumptions and limitations - implementation of a Customer Service Improvement Programme, linked to Business Improvement, has consolidated the new Customer Relations Centre systems and streamlined the interfaces with operational service delivery. Through this programme, NI Water is improving the service provided in response to queries and resolving customer issues. In all cases the aim is to give a prompt, courteous and professional response.

Target 4 – Billing of Metered Customers (DG8)

Purpose - this covers the proportion of customers who receive bills for metered accounts during the 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 on a cumulative basis.

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

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

Target 5 – Telephone Contact (DG9)

Purpose - the aim of this indicator is to identify the ease with which customers can make telephone contact with NI Water via the Principal Advertised Customer Contact (PACC) Points during office hours and their satisfaction with the way the Company handles their telephone call.

Parameters of target - Utility Regulator Guidance for Annual Information Return reporting requires that the DG9 target is split to cover 'all lines busy', 'calls abandoned' and 'call handling satisfaction'. The 'all lines busy' category measures the degree of difficulty customers experience in being able to connect with a company agent. The 'calls abandoned' category is to capture the total number of callers who abandon their call before it is substantively answered by the Company.

Measurement of target - 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. This differs slightly from our monthly SLA contractor reporting, in that permitted exclusions noted below are subtracted at the year end.

Sources, assumptions and limitations - the indicator is intended to monitor incoming telephone traffic which can be regarded as originating from NI Water's customer base. NI Water can exclude:

- calls from contractors and suppliers, or calls made by a contractor's field operatives to contractor's offices e.g. switchboard calls;
- calls to organisations acting as agents for NI Water, e.g. debt collection agencies are excluded from the measure, unless they represent a principal customer contact point for NI Water; and
- calls to the direct lines of named individuals or specialist sections, except where the specialist section (such as Debt Recovery) specifically prints its Direct Dial numbers on NI Water's letterhead.

Target 6 – Inadequate pressure

Purpose - the purpose of this KPI is to measure the number of properties which have received or continue to receive pressure and flow below the reference level and have been entered in the DG2 (low pressure) Register.

Parameters of target - the target refers to a reduction in the number of properties experiencing pressure and flow below the required standard of service due to Company action. Properties can be removed from the DG2 Register when they consistently receive pressure and flow above the reference level.

Measurement of target - properties are assessed against a reference level of 10 metres head and a flow of 9 litres per minute measured at the customer's main stop tap. To facilitate measurement, a surrogate head of 15 metres has been taken in the adjacent water main.

Sources, assumptions and limitations - properties currently assessed to be below the reference level were originally derived from a combination of zonal studies and field pressure measurement studies. Annual targets for the removal of properties from the DG2 register, through Company action are set in the Final Determination for PC10.

Target 7 – Sewer flooding (overload)

Purpose - the purpose of this KPI is to measure the number of properties affected by an incident of internal sewage flooding caused by an overload of a sewer (also termed hydraulic capacity) excluding those incidents resulting from severe weather.

Parameters of target - number of properties affected by an incident of internal sewerage flooding caused by an overload of a sewer (also termed hydraulic incapacity), excluding those incidents resulting from severe weather.

Measurement of target - the register is held on an Oracle database represented on the Corporate Asset Register. The database is maintained and updated by NI Water's asset management team. Reporting for internal flooding is made using the internal flooding Oracle database.

Assumptions and limitations - this process is still under development. As such, 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 8 – Sewer flooding (other causes)

Purpose - the purpose of this KPI is to have a readily available record of each individual property affected by an incident of internal sewage flooding caused by equipment failure in, blockage or collapse of, a sewer (also termed other causes), thus meeting regulatory requirements.

Parameters of target - number of properties affected by an incident of internal sewage flooding, caused by equipment failures, blockages or collapses of a sewer (collectively termed other causes).

Measurement of target - a download of internal sewer flooding records is obtained from the Ellipse system on a month by month basis. 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 carried out for each reported incident and those properties found not to be flooded, after investigation using information from the contractor, flooding incident report forms, field manager reports and contacting the customers directly, are removed and the remaining properties are combined to give the yearly total.

Sources, assumptions and limitations - we have assumed that a single incident includes recorded complaints from the same property on the same day or within three days.

Target 9 – Sewer flooding (at risk)

Purpose - the purpose of this KPI is to measure the number of properties removed from the 'at risk' Register of internal flooding by sewage, caused by overload, once in 20 years, or more frequently, against the outputs specified in the PC10 Final Determination.

Parameters of target - number of properties removed from the 'at risk' Register of internal flooding by sewage, caused by overload of a sewer (also termed hydraulic incapacity) excluding those incidents resulting from severe weather, once in 20 years or more frequently.

Measurement of target - most removals from the register will be 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 - as 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 10 – Leakage

Purpose - the purpose of this target is to measure the volume of water lost from the water network distribution system that can’t 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 Utility Regulator, 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 11 – Operating margin

Purpose - the operating margin target measures operating profitability. The higher the margin, the greater the control of operating costs to leave profits to finance tax payments, reinvestment and dividends.

Parameters of target - the operating margin excludes exceptional costs (early departure and business improvement costs), interest, tax and dividend payments.

Measurement of target - the target is calculated as the UK GAAP historical cost operating profit before interest, tax and dividends (after adjustment for early departure and business improvement costs) divided by total revenue.

Sources, assumptions and limitations - any exceptional costs are excluded from the target as they are deemed to be non-recurring. The target is currently measured on a UK GAAP basis and will be measured on an IFRS basis with effect from 2012/13.

Target 12(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 12(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 12(a) for 2011/12 was 98%.

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 12(b) – Billing

(b) percentage of measured bills issued within 5 working days of a meter reading **including** any exception readings that require investigation.

Purpose - see target 12(a).

Parameters of Target - target 12(b) for 2011/12 was 95%.

Measurement of target - calculate the percentage of bills issued within five days of the meter reading, **including** any exception readings that require investigation.

Sources, assumptions and limitations - see target 12(a).

Target 13 – replaced by target 14.

Target 14 – Customer debt outstanding (debtor days)

Purpose - this target measures the second part of the cash cycle, the speed of collection of amounts billed. Debtor days is used to measure the number of days' worth of sales remaining outstanding at a point in time. The annual target measures the speed of collection of amounts billed.

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

Measurement of target - the debtor days calculation uses the monthly billing total for measured water, sewerage and trade effluent. The total debt figure is the accounts receivable total for water, sewerage and trade effluent. The total debt at the end of the year is divided by the income for the year, and then multiplied by 365 to calculate debtor days.

Sources, assumptions and limitations

Downturn in demand
As billing decreases, the proportion of debt to sales increases, and debtor days 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 can lead to fluctuations in debtor days.

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

Write off policy
Debts are only written off once confirmed as uncollectible, such as insolvencies. There is a lengthy approval process to write off any other debt.

Target 15 – Health and safety

Purpose - to monitor accident trends and allow NI Water to take positive action to reduce accidents both for NI Water staff and for contractors working for NI Water.

Parameters of target - this target includes any accident which results in more than 3 days absence from work or accidents that prevents staff carrying out their full range of duties for more than 3 days, following the date of the accident (in line with RIDDOR). NI Water's health and safety accident reporting procedures require staff to report accidents within 24 hours of occurrence.

Measurement of target - the 2012/13 RIDDOR target is a reduction on the 2011/12 target and is in line with NI Water's 'Zero Accident Ambition'. Health and Safety is reported to the NI Water Board each month and taken as the first item on the Board agenda.

Sources, assumptions and limitations - health and safety incidents are reported by line managers on DATIX, the NI Water approved risk management software package, from which health and safety statistics are compiled.

Target 16 – Headcount

Purpose - to measure and monitor the headcount which includes all permanent and temporary employees.

Parameters of target – reduction in the number of permanent and temporary employees.

Measurement of target - based on information supplied by the 'Oracle' HR IT Management System.

Sources, assumptions and limitations - data is provided by the Oracle payroll system.

Target 17 – 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 18 – Employee engagement

Purpose - the employee engagement survey is designed to give a real insight to how we are doing against the goal – 'We want NI Water to be a truly great place to work' and how we are coping with the transformation of our organisation. The survey offers a standardised method of measuring our progress that can facilitate benchmarking with other comparator organisations.

Parameters of target - the response rate for each survey is measured. However, the target is a combined measurement of a number of critical statements for every respondent, which when analysed across all the responses equates to a corporate engagement score out of 100. The target is set to measure the improvement in engagement of those employees that were previously 'neutral', to a position of 'agree', which will be based on the previous response rates in the survey.

Measurement of target - the engagement score is be measured against 5 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 employees who currently do not have online access to the survey.

Target 19 – Mean Zonal Compliance (water quality at the tap)

Purpose - the purpose of the Mean Zonal Compliance (MZC) assessment is to monitor regulatory compliance at the customer's tap. MZC is an industry agreed methodology and allows NI Water to benchmark performance against other water companies.

Parameters of target - MZC is a measure of compliance with Drinking Water Standards as used by the DWI.

Measurement of target - for any one zone, the zonal compliance for any one parameter is the percentage of samples meeting the prescribed concentration or value. For any parameter, mean zonal compliance is the mean of the zonal compliance values for all zones in Northern Ireland. Overall MZC is the mean or average of the MZC values for all parameters as defined by the DWI.

Sources, assumptions and limitations - compliance assessment is facilitated by a random sample programme which means that a specified number of samples are collected from randomly selected addresses. The MZC comparison year on year is dependant on selecting a consistent representation of customer addresses each year. MZC, as measured at the customer tap, continues to improve despite changes to drinking water quality regulations. The regulatory limits for taste and odour were reduced by regulatory amendment in 2010 and therefore affected the 2011 outturn. The effect was minimised by improved drinking water quality, in real terms.

Target 20 – Operational performance indicator (Turbidity, Iron and Manganese (OPITIM))

Purpose - the purpose of OPITIM is to monitor the condition of our distribution system in terms of Turbidity, Iron and Manganese at the customer's tap.

Parameters of target - OPITIM is the mean or average of the mean zonal compliance values for Turbidity, Iron and Manganese and is the Operational Performance Index used by the DWI.

Measurement of target - as per target 19, but only for Turbidity, Iron and Manganese parameters. The random nature of the sample programme is most evident in measurement of Iron, which is one of only three parameters measured in OPI TIM. The OPI TIM water quality performance measure is inherently variable, particularly whilst water mains rehabilitation work is on-going in the distribution system. The measure was designed to assess distribution systems in England and Wales, where mains rehabilitation is largely complete. For this reason a three year span should be considered when assessing the improvement trend.

Target 21(a) and 21(b) – Wastewater quality

Purpose - the purpose is to monitor progress on compliance of those WWTWs serving, more than 250 population equivalent, with Water Order Consent numeric standards and the percentage of the population equivalent being served by compliant WWTWs.

Parameters of target - target 21(a) relates to the percentage of the 238 WWTWs whose effluent quality complies with the Water Order Consent discharge standards set by NIEA. Target 21(b) relates to performance of the same WWTWs but measurement is against the population equivalent served by compliant works. Performance is assessed on a calendar year basis.

Measurement of target - samples are taken at each WWTW relating to the population equivalent served by the works. The in-house laboratory analyses samples for those parameters included in the Water Order Consent. Compliance for each WWTWs is assessed on a parameter basis using the Urban Wastewater Treatment Regulations (NI) 1995 Look-up Table. This statistically derived methodology permits a certain number of exceedances, based on the number of samples taken, for each parameter included in the Water Order Consent. When this number of exceedances is surpassed, a works is deemed to fail. A number of WWTWs have upper tier limits on the parameters included in the Water Order Consent discharge standards and one exceedance of these values will result in the failure of a works. For target 21(a), at the end of the calendar year the number of works which have passed is calculated as a percentage of the total number of works to determine if the target is met. For target 21(b), the population equivalent served by compliant works as a percentage of the total population equivalent served is calculated. Upper tier failures are excluded in this calculation, as agreed with the Utility Regulator.

Sources, assumptions and limitations - the Water Order Consents are issued by NIEA who make the assessment of which WWTWs meet the standards of the Water Order Consents. The population equivalent is based on our annual assessment for NI Water operated WWTWs as agreed with NIEA. Population equivalent figures for PPP operated works are provided by NIEA.

Target 22 – Wastewater Treatment Works passing Urban Wastewater Treatment Directive numeric consents

Purpose - the purpose is to monitor progress on compliance of those WWTWs subject to the numeric standards of the Urban Wastewater Treatment Regulations.

Parameters of target - the target relates to the percentage of the 79 WWTWs which comply with the numeric standards of the Urban Wastewater Treatment Regulations.

Measurement of target - representative samples are taken at each qualifying WWTWs using automatic sampling equipment. NI Water's laboratories analyse the samples for those parameters set out in the Urban Wastewater Treatment Regulations. Compliance for each WWTWs is assessed on a parameter basis using the look-up tables of the Regulations. This statistically derived methodology permits a certain number of exceedances for each parameter. When this is surpassed a WWTWs is deemed to fail. Overall compliance is calculated as the percentage of the WWTWs meeting the numeric standards.

Sources, assumptions and limitations - the qualifying WWTWs are determined in consultation with NIEA who make the assessment of the number of WWTWs meeting the standards of the Urban Wastewater Treatment Regulations.

Target 23 – Pollution incidents

Purpose - to provide a means of monitoring the number of high and medium category pollution incidents attributed to NI Water by NIEA.

Parameters of target - the target relates to the number of high and medium category pollution incidents attributed to NI Water by NIEA in a calendar year. The target is set on an annual basis, taking into account annual fluctuations in pollution incident numbers.

Measurement of target - NIEA provide a quarterly audit report indicating the number of high, medium and low pollution category incidents that they have attributed to NI Water. The number of high and medium pollution incidents attributed to NI Water is based on NIEA classifications. NI Water can challenge the NIEA initial classifications and audited samples relating to the 2011 outturn.

Sources, assumptions and limitations - the compliance outturn is reported from the NIEA annual audited figures.

Target 24 – Capital works programme

Purpose - to provide a means of monitoring the progress of the 2011/12 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 2011/12 capital works programme.

Measurement of target - the target relates to schemes completed during 2011/12. 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.

Appendix C – Report by KPMG to Northern Ireland Water Limited on Regularity

1 Introduction

1.1 This report explains the current status of the Company's progress in respect of the issues leading to the qualification of the prior year financial statements on the grounds of irregularity of expenditure. Our opinion is not qualified in this respect in the current year.

2 Background

2.1 NI Water was established on 1 April 2007 as a Government owned company with the Department for Regional Development ("DRD") as the sole shareholder. NI Water is subject to companies' legislation. NI Water was appointed under the Water and Sewerage Services (Northern Ireland) Order 2006 as the provider of water and sewerage services in Northern Ireland, operating under licence from the Northern Ireland Authority for Utility Regulation.

2.2 In addition to the requirements of companies' legislation, the DRD established particular governance arrangements for NI Water which allowed the DRD to act in accordance with the Shareholder Executive approach for public sector shareholdings. The DRD Accounting Officer holds ultimate responsibility for the DRD's shareholding in NI Water. In meeting this responsibility, governance arrangements were agreed with NI Water. This included appointing the Chief Executive as Accounting Officer for NI Water. It also included financial delegations where limits were set for certain transactions above which Shareholder approval was required. It also required that NI Water would comply with relevant procurement guidelines (DFP guidance, DRD guidance and Utilities Contract Regulations).

2.3 Funding from the DRD to NI Water is in the form of revenue subsidy (NI Water's main source of income), some 75 percent of its income, and the issue of capital loan notes for investment in water and sewerage infrastructure. In 2010/11 the DRD's subsidy to NI Water was £263 million and capital loan notes of some £110 million were issued.

2.4 As a Company governed by the Companies Act 2006 requirements, NI Water is not directly required to obtain a regularity opinion, however given that NI Water is in receipt of significant public expenditure subsidy following the deferral of domestic water charging, the DRD issued a direction to NI Water dated 18 November 2010 requesting a regularity opinion be obtained for the 2010/11 financial year.

2.5 The 2010/11 regularity opinion was qualified in the amount of £4.7m due to irregular expenditure relating to 158 items.

3 Actions taken by management

3.1 Following the issues identified in prior years, NI Water instigated a series of measures aimed at regularising expenditure and ensuring compliance with financial delegations and procurement guidelines in respect of future transactions. These steps included:

- all quotation purchase requisitions are challenged for compliance to procurement procedures;
- introduction of a Procurement for Goods and Services Procedure;
- training for all Directors and senior managers in the delegations and procurement procedures;

- procurement activity and compliance presented as a standing Board agenda item;
- initial review of all off-contract expenditure and presentation of findings to the Audit Committee and Board;
- establishment of a project board to oversee a detailed action plan to regularise expenditure with a focus on addressing key issues within the first phase;
- regular review of off-contract expenditure;
- rejecting quotation purchase requisitions where a contract should be used;
- establishment of a Procurement Committee to review key procurement controls;
- single tender actions and contract extensions recorded in a contracts database and reported to the Procurement Committee, Board and the DRD;
- issues in retendering contracts due to expire within 9 months are reported to the Executive Committee and the 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.

3.2 An action plan has been developed to ensure that transactions with the suppliers identified in the initial review of goods and services off-contract expenditure (3.1 above) comply with financial delegations and procurement guidelines. The procurement team last reported to the Board a total of 63 suppliers with whom transactions are currently deemed non-compliant. The total spend in year on these suppliers is approximately £1.44m. We set out below the status at 31 March 2012 of the open items of expenditure.

Operating expenditure	Number of items	2011/12 spend (£)	Average value (£)	Maximum value (£)	Minimum value (£)
Regularisation project	40	1,047,215	26,180	94,220	104
Business as usual	15	283,286	18,886	50,341	514
New items	8	111,356	13,919	38,227	262
Total	**63**	**1,441,857**	**22,887**	**94,220**	**104**

In respect of the above table, the regularisation project and business as usual headings relate to current status of those goods and services items deemed irregular in the 2010/11 accounts.

4 Review of new contracts / extensions in the year

4.1 During our current year's audit work, which involved the sampling of 42 new contracts, 7 contract extensions and 17 single tender actions, we noted one breach of internal policy in relation to the extraordinary extension of a capital works contract with WS Atkins in respect of zonal studies and engineering consultancy. During the year a number of extraordinary extensions were granted in respect of this zonal studies contract with a total value of approximately £1.3m. Board approval was obtained for these extensions however Board approval was not sought for the engineering consultancy element of approximately £0.9m.

4.2 Breaches of internal policy (as opposed to breach of legislation or delegated financial limits) are generally deemed to be non-compliance rather than irregularity, however in the event that such non-compliance is evidence of systemic failure this could be deemed to be irregular. This was the case in the previous period. Based on our testing, the one instance identified above, and on the system of control operating in this area in the current year, we consider that the occurrence of the internal breach referred to above does not represent a systemic failure. No new items of irregular expenditure have been identified in our sampling during the year. We do not intend to qualify our opinion on regularity. We are however making a report to update the users of the accounts on the current status of the regularisation programme.

5 Conclusion

5.1 In forming our opinion on the 2011/12 Northern Ireland Water Limited Statutory Accounts, we are required to confirm whether in all material respects the expenditure (disbursed) and income (received) have been applied to the purposes intended by the DRD as set out in their direction to the company of 18 November 2010 and the financial transactions conform to the authorities which govern them.

5.2 On the basis of our findings above, and in respect of the work undertaken in the year, we have not identified any new contracts in the year that do not conform to the authorities that govern them.

5.3 We are satisfied that, in all material respects, the expenditure (disbursed) and income (received) have been applied to the purposes intended by the DRD as set out in their direction to the Company of 18 November 2010 and the financial transactions conform to the authorities which govern them.

Arthur O'Brien
for and on behalf of KPMG
KPMG Chartered Accountants
16 – 25 College Square East
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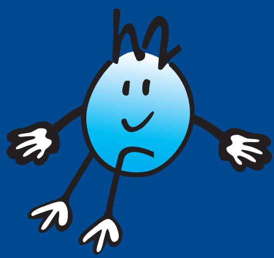
2 July 2012

Water is precious
Don’t waste it



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