

How are we performing?

Strategic Business Plan 2007-2010
6 Month Interim Report

1 April 2007 - 30 September 2007

January 2008

“Working as one team
we will become the
number one utility
company in the UK
by 2014”

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Note

This interim report is for the purpose of informing all stakeholders on the progress against the targets set out in the Strategic Business Plan. It has not been prepared in accordance with the Accounting Standards Board's exposure draft (February 2007) entitled 'Half-yearly financial reports'. The information in this Interim Report has not been subject to audit or other independent certification.



Chairman's Foreword

The past 6 months have seen major improvements, changes and challenges to the water industry in Northern Ireland.

The creation of N.I. Water has been a significant step forward in the delivery of an efficient, transparent and sustainable public service which we provide 365 days a year.

As an organisation whose key activity is to provide water and sewerage services, we understand that water is one of Northern Ireland's most valuable resources. It is vital for everyone's health and well being and for the benefit of the economy and the environment.

As well as many changes within our organisation, the landscape in which we operate has also changed significantly with new and tighter regulation, the return of the Northern Ireland Assembly and an independent review on the future model and financing of water and sewerage services. We welcome this review and have actively engaged with the Review Panel and key stakeholders to constructively find a solution which best suits Northern Ireland.

It is pleasing and encouraging to know we have been able to respond to these demanding internal and external changes and despite these challenges we have continued to make progress in delivering major efficiency and compliance targets.

This is a unique and exciting time in our organisation's history. We have the opportunity to build a world class water and sewerage infrastructure in Northern Ireland. The focus for the 3 years to 2010 is to deliver substantially better quality services at a lower cost

while putting in place the supporting culture, processes and systems to ensure we have a sustainable and efficient organisation.

We are one of the 10 largest companies in Northern Ireland in terms of revenue and with a major capital investment programme, we will contribute to the growth of our economy and will be the largest investor in environmental improvement in Northern Ireland.

N.I. Water must now evolve to become a self-financing, cost efficient and regulated business capable of delivering best in class service and value for money.

The publication of this report, which is also available on our website, is an important step along the way. It is our first interim report; we have clear targets and it is important that we communicate our performance against those targets such as customer services, water quality, waste water compliance and organisational efficiencies.

I do not underestimate that the challenges ahead are great, but so too are the opportunities. Our targets are clear and the bar has been set high, but I am confident they can be achieved.

The exciting journey of improvement has begun.

Chris Mellor
Chairman



Chief Executive's Foreword

I am pleased to present the first interim report for N.I. Water.

We came into existence in April alongside the new Northern Ireland Assembly. This is a new beginning, and like our politicians we have a huge responsibility to help shape the future of our organisation for the benefit of everyone in Northern Ireland.

Whilst our organisation has changed in so many ways, our key activity remains the provision of water and sewerage services to everyone in Northern Ireland.

We are improving the way we work to make us more efficient; to give better service to our customers; to ensure our environment is protected and to support the Northern Ireland economy. We are determined to play our part in the new beginning for Northern Ireland and to contribute to its success and prosperity.

Our Strategic Business Plan requires us, however, to meet ambitious new financial and operational targets. This report sets out our performance in our first 6 months against those targets.



A strong focus on Customers, Cash, Compliance and People has produced an encouraging set of results to date. Early difficulties surrounding the new customer relations centre, septic tanks emptying and new connections have now been resolved. Service standards continue to improve and I thank customers for their forbearance earlier in the year. Our financial performance has been good. We have met our targets on operating and capital efficiencies, our half year operating profit margin and kept within borrowing limits set by Government. Compliance with waste water quality and leakage reduction targets has also been successful to date. It is clear, however, that we will not now meet some of our end of year targets for water quality. Fundamental to the delivery of improved performance at reduced cost is the work we are doing with our People and change management and, at half year, results are also promising.

Overall we are on track to meet nearly all of our Key Performance Indicators (KPIs) and we are working hard to achieve the few that could be at risk. Details of our KPIs including performance for the first 6 months is contained in Appendix A.

The success of N.I. Water will have a positive impact on every single citizen, home and business in Northern Ireland and we are determined to develop and build a stable organisation that meets the needs of our customers, our environment and the Northern Ireland economy.

Katharine Bryan
Chief Executive

Customers

N.I. Water has at the heart of its operations the desire to provide an excellent service to its customers.

Over 1.7 million people in Northern Ireland rely on N.I. Water for their water and wastewater services. Each day we supply some 625 million litres of high quality drinking water to approximately 786,000 domestic and commercial properties.

We are making good progress on improving the level of customer service for all consumers in Northern Ireland. At the end of 2006, we created a new Customer Relations Centre, with about 200 local and qualified staff. Between April and September 2007, 166,902 customer calls were received from all over Northern Ireland, with 93.47% of these calls being answered within 30 seconds, against a target of 93%. Within the same period, we also processed 38,422 written queries and dealt with 864 written complaints, 97.22% of which were answered within 10 days against a target of 96%.

Following the introduction of the new non-domestic customer billing system in October 2006, we experienced some initial problems. These issues have now been rectified, leading to an improved performance on our response to billing contacts within 5 days from 88% in April to 92.18% as at 30 September 2007. In addition, we have increased the number of customers receiving bills based on actual meter readings from 82.98% in June 2007 to 85.05% in September 2007.

The 2 major key challenges we faced in our first 6 months were successfully dealt with. These were:

Septic Tanks

Following the termination of the septic tank emptying agreement (with 66,000 customers) in March 2007





(in anticipation of charges being phased in from April) we received an unprecedented number of requests for our discretionary emptying service. To resolve this, we employed an additional contractor to reduce the backlog from a peak of over 7,000 and we anticipate a return to normal standards of service in early 2008.

New Connections

The processing of applications for new connections to the water and sewerage network has been significantly overhauled to ensure a timely response to developers. New systems have been developed and installed to ensure better communication between the Customer Relations Centre, the New Connections Team and front line Operational staff. Performance is being rigorously monitored on:

- The inspection of sites after application;
- Issue of connection approval letters;
- Provision of new connections or request from developers; and
- Benchmarking with GB comparators indicates that the new process compares favourably with practice in England, Wales and Scotland.

Relations with the Utility Regulator and Consumer Council

Together with the Utility Regulator and the Consumer Council we are developing good working relations. Since April 2007 we have liaised and worked closely in drafting new Codes of Customer Practice, a Customer Charter and a Complaints Procedure. We aim to publish these documents in early 2008. This work will also contribute to the development of future Guaranteed Standards of Service for Customers planned for April 2009.

Relations with Stakeholders

As well as working hard to improve our service to customers, we are also improving our communication and consultation with stakeholders, elected representatives and the Independent Water Review Panel. Since April we have:

- Attended 9 Local Councils to present our Capital Works Programme;
- Set up dedicated phone line for elected representatives;

- Held or attended approximately 80 stakeholder engagements;
- Visited over 90 schools around Northern Ireland, teaching children about the valuable resource of water and the water cycle;
- Attended 10 public shows and community events; and
- Handled over 550 local media enquiries.

In addition, our investment is delivering real benefits to the customer and the environment:

- All of the 9 EU infringed sites are fully compliant;
- 13 major schemes have opened all over Northern Ireland;
- 151 kms of watermains and 16 kms of sewers were laid between April and September 2007;
- 8 Blue Flag beaches were awarded in 2007;

In addition to the major capital works schemes such as the Belfast Sewers, N.I. Water is investing in other ways to help reduce pollution incidents to Northern Ireland's watercourses. We are testing 172 pollution alarms and signals around Northern Ireland and refurbishing those that are not functioning. We aim to increase the frequency of inspections at Combined Storm Overflows and to reduce the number of sewer blockages. Work is currently

on-going or planned to identify repeat blockages and problem areas to reduce incidents of pollution to watercourses or flooding.

N.I. Water is facing difficult targets but there is a strong desire to outperform the targets to deliver significant benefits to the customer and the Northern Ireland economy. Improving service while becoming more efficient will be challenging. We are determined to achieve equivalent or better improvements to service over a 9 year period from 2005, in comparison to 12 years for Scottish Water and 15 to 20 years for English and Welsh companies.

Flooding

N.I. Water played a major role in responding to severe flooding in June, which affected Belfast and other parts of Northern Ireland. Following the flooding, a major emergency plan was implemented by public, private and voluntary services to assist the recovery operations. N.I. Water actively participated in the multi-agency response and ensured that all our assets performed to optimal capacity. Staff worked long hours to provide the necessary assistance to all affected households and ensured that our response to telephone contacts was maintained above 88%. We will continue to liaise with other agencies to further develop the inter-agency emergency plan and implement lessons learned from these events.





Service Improvements

In the past 6 months, N.I. Water has been implementing a Mobile Work Management System, which will schedule work order assignments to mobile field staff. This system is standard across all UK water organisations. When up-and-running the system will manage and streamline the entire work order process, from the first call to job completion and will enable our staff to mobilise - dramatically reducing the number of manual steps and saving precious time.

This is particularly important in times of flooding and interruption to water supply. The aim of the system is to improve the level and speed of service we provide to our customers.

N.I. Water is proud of its relationship with its customers and stakeholders. Every effort is being made, and will continue to be made, to maintain and improve our relationships.

Cash

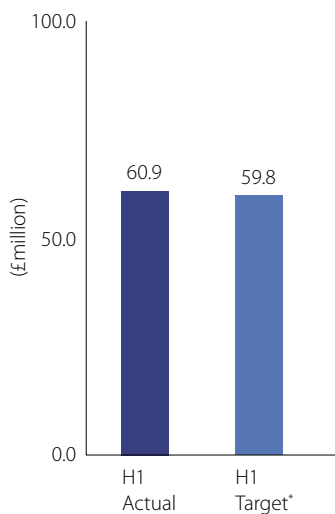
N.I. Water plans to invest £1M per working day over the next 3 years to improve the water and sewerage service throughout Northern Ireland.

It is essential that N.I. Water has a sound financial structure in order to fund its activities. This focuses on meeting profitability targets and the management of borrowings as summarised below:

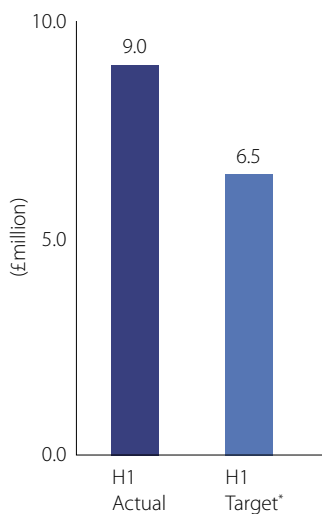
- In the first 6 months of this year ('Half 1') we have delivered an operating profit of £60.9m against a half-year target of £59.8m;
- In the first 6 months of this year, we have delivered a net profit of £9.0m against a half-year target of £6.5m. The key driver for the higher profit results from a delay to a number of projects in the capital works programme to focus on areas that deliver higher efficiencies. The delay in the capital works programme also resulted in lower interest costs for the first 6 months. N.I. Water remains on track to achieve the 2007/08 net profit of £5.3m in line with the 2007/08 draft budget;
- Fulfilling the obligations of our borrowing requirements, including the management of key financial ratios such as the level of debt in proportion to Regulatory Capital Value (RCV). The half-year borrowing requirement of £125.9m was lower than the budgeted borrowing requirement of £215.9m, primarily as a result of the delay in the capital works programme.



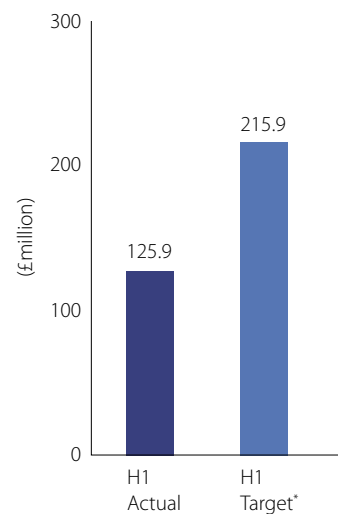
Half 1: Operating Profit (£M)



Half 1: Net Profit (£M)



Half 1: Borrowing (£M)



*Per 2007/08 draft budget. The 2007/08 Strategic Business Plan budget is being revised following the deferment of charging for domestic and new non-domestic customers.

Other financial highlights include:

- Delivered a half year operating profit margin of 24.9%** in line with our target of 25.44%# for 2007/08;
- Delivered operating and capital cost efficiencies in line with our respective targets of £44m and 17% by 2009/10. The systems to report against the efficiency targets are being developed in conjunction with the Utility Regulator;
- Delivered the 2007/08 capital programme at an improved cost. The systems to report against the capital programme are being developed in conjunction with the Utility Regulator;
- Efficient management of cash in the organisation including improved focus on debt management;
- Working with the Utility Regulator to develop our systems to meet the regulatory reporting obligations;
- Working with the Department for Regional Development to develop the reporting of financial information; and
- Developing our control environment including the appointment of internal and external auditors and the operation of an Audit Committee chaired by a non-executive Director.

** Not adjusted for Voluntary Early Retirement (VER) or one-off business transformation costs

Per Strategic Business Plan. Target includes adjustment for VER and one-off business transformation costs. Target to be revised on finalisation of draft budget for 2007/08

Compliance

For the first time in our history, N.I. Water is operating under similar industry standards as other UK water organisations and is subject to full economic and environmental regulation.

This is important, as it provides N.I. Water with a clear regulatory framework to achieve a better service for our customers and environment. Our economic performance is now overseen by the Utility Regulator (NIAUR). The Environment and Heritage Service (EHS) and the Drinking Water Inspectorate (DWI) work to ensure we meet environmental obligations.

Water Supply

Water and sanitation are vital for everyone's health and wellbeing and a basic requirement for industry and development. That is why we aim to reduce the incidents of water supply interruption and ensure any interruptions are dealt with urgently. One of our key targets is to respond to 98% of emergency calls within 6 hours. In fact, N.I. Water is currently answering 99.5% of these calls within that period. Our focus now is to plan any interruptions to supply in advance and to give customers a minimum of 48 hours notice.

In addition, our Mains Replacement Programme is also helping to reduce the number of unplanned interruptions by renewing old mains on a priority basis. Between April 2007 and September 2007 we replaced 151 km of old water mains which has reduced the interruptions, reduced the leakage and improved the water quality for these pipelines.

Leakage

Water is a valuable resource and reducing the level of leakage is important to N.I. Water, our stakeholders and customers alike. N.I. Water is actively working to reduce the overall level of leakage to the economic level. We are on track to meet our leakage reduction target of 157 million litres per day.



The reduction in leakage was 162.9 million litres per day as at 30 September 2007. This has been achieved by adopting a best practice approach to leakage detection, repair and network management. We also encourage the public to report any leaks or bursts to our dedicated Leakline number 08000 282011.

- All 9 EU infraction sites in N.I. fully compliant
- Further reduction on leakage
- Wastewater Compliance on-target

Water Quality

The people of Northern Ireland expect high quality drinking water consistently delivered to their homes. N.I. Water works with the DWI and appropriate health professionals to meet those expectations. Drinking water quality has significantly improved since 2000 due to the investment in new water treatment works and the ongoing network upgrades. N.I. Water carries out over 50,000 tests of the water quality at the taps each year and results have been slightly below the increased target for compliance for 2007 and are similar to the results for 2006. This is primarily due to a reduction in raw water quality associated with

the unusually wet summer period. Drinking water compliance standards are set at a level to protect public health and the compliance levels for trace elements and compounds are set significantly below the health notification values.

The outturn for network compliance, OPI TIM (Operational performance index for turbidity, iron and manganese) is currently above the target of 98.90%. This indicates that the investment targeting for the water network upgrading and operational management of the network has been successful.





Wastewater

As well as providing high quality 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. From 2007/08 to 2009/10 we will invest £265m in state of the art treatment works to improve the quality of treated wastewater we return to the environment. As at 30 September 2007, we are on programme to achieve our target for 2007 of over 82.5% of the population served by compliant wastewater treatment works. This represents a major improvement, compared with our actual performance of 77% last year.

The European Community (EC) sets mandatory treatment levels on the basis of the population served by the treatment works and the sensitivity of waters receiving discharges. This is set out in the Urban Wastewater Treatment Directive (UWWTD) and other environmental directives. The aim of these Directives is to protect the environment from the adverse effects of sewage discharges. Our level of compliance with the UWWTD's standards, as at 30 September 2007, is almost 90% and presently 69 out of 77 of the relevant works are meeting the standards set by the Directive.

People

We recognise the importance of attracting and retaining professional and highly trained people.

The quality of our staff has an impact on how we deliver our services, our relationship with customers and our ability to operate as an efficient company.

We aim to develop a performance culture to encourage our employees to embrace our business objectives as their own. At this early stage we are achieving a staff attendance target of 95.8% and we have already introduced a number of staff initiatives:

One Programme

We are delighted to have recently launched the 'One Programme', the biggest change programme on the island of Ireland.



Incorporating 44 projects, the programme will help improve the way we work, making us more efficient, putting service at the forefront of what we do, ultimately delivering a good value service for our customers. The 'One Programme' is essential not only to meet regulatory and legal requirements, but also has the capacity to deliver even greater efficiencies and improved performance for 2007-2014.

Employee Promise

Our 'Employee Promise' marks the start of a new relationship between N.I. Water and its employees. The 'promise' came together following a series of meetings with staff across Northern Ireland to discuss proposed commitments N.I. Water would make to employees. In turn, we asked what would be reasonable to expect employees to commit to. The tangible result of this work is published in the Employer/ Employee handbook made available to all staff.

Performance Management and Pay and Grading Review

We are assessing our existing Performance Management system and are working to define a future system in consultation with Trade Unions. Alongside this, we are progressing a Pay and Grading Review for all staff. Initial analysis has been completed, with a benchmark of the current salaries and grades against the market rate in Northern Ireland and selected GB utilities. We have also announced details of a new performance-driven company bonus, available to all staff.

The 'One Programme' is the biggest change programme on the island of Ireland and will help support us in the delivery of our vision.





Staff Health and Wellbeing

As part of our vision of being an employer of choice and to improve staff attendance and our health and safety performance we have developed a Health and Wellbeing policy. Since the policy was implemented we have been working with healthcare providers, organised health and wellbeing shows, occupational health advice and a health and safety programme for staff.

People Efficiency

Our People Efficiency programme is progressing to schedule. All affected staff have been briefed and consultations with Trade Unions are ongoing. Processes such as Voluntary Early Retirement decisions and redeployment opportunities for staff are also underway.

In common with most organisations going through change, N.I. Water has a duty and interest in helping employees through this period of uncertainty and to achieve our Strategic Business Plan targets. Our recent staff survey highlighted a number of issues which we remain determined to address to become an employer of choice.

We recognise and are thankful to our staff who are willing to embrace change and play their part in moving N.I. Water forward. In line with our vision - **“Working as one team we will become the number one utility company in the UK by 2014”.**

Appendix A

Key Performance Indicators (KPIs)

This appendix outlines a full list of the KPIs for N.I. Water to achieve, as set out in our Strategic Business Plan 2009/10. Actual performance is recorded for the first six months of 2007/08. The 2006/07 performance is shown for comparison purposes where available; this relates to the former organisation, Water Service, which was not required to measure or report on these KPIs.

KPI	Actual 2006/07	Target 2006/07	Actual 2007/08 (6 months)	Target 2007/08	Target 2009/10	Target 2014/15
CUSTOMERS						
1. Supply interruptions - number of properties experiencing unplanned and unwarned interruptions in excess of:						
6 hours	#	#	0.55	2.00	1.00	0.30
12 hours	0.13	0.30	0.06	0.25	0.15	0.10
24 hours	#	#	0.002	0.03	0.01	Nil
(expressed as a percentage of households)						
2. Written complaints - number of written complaints answered within 10 days as a percentage of total written complaints (%)	91.4	90	97.22	96	98	100
3. Customer billing - number of billing contacts dealt within 5 working days expressed as a percentage of total billing contacts. Billing contacts include account queries, change of address, request for alternative payment arrangements etc. and can be received by telephone, in writing, by email and by personal visit (%)	#	#	92.18	96	98	100
4. Billing of Metered Customers - number of bills based on a meter reading expressed as a percentage of total metered accounts (%)	#	#	85.05	95	95	99
5. Ease of telephone contact - customer calls answered during business hours (8am to 8pm Monday to Friday, 8am to 6pm Saturday, 10am to 6pm Sunday) within 30 seconds (%)	83.1	93	93.47	93	96	98
6. Telephone contact. Total calls NIW received on customer contact lines, total calls abandoned, and the number of callers unable to connect because all lines were busy. (An independent market research company also carries out a survey on call handling satisfaction.) - % of calls not abandoned - % of calls not all lines busy - % customer satisfaction	#					New target developed by OFWAT, not yet set for NIW.
7. Sewer flooding: 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	#					KPI Target Under Construction

Appendix A

Key Performance Indicators (KPIs)

KPI	Actual 2006/07	Target 2006/07	Actual 2007/08 (6 months)	Target 2007/08	Target 2009/10	Target 2014/15
8. Sewer flooding: 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')	#					
9. Sewer flooding: Number of properties considered to be at risk of flooding by sewage caused by overload, more frequently than once in 10 years	#					
10. Pressure: Number of properties at risk of receiving pressure below reference level of 10 metres head at a flow of 9 litres per minute, expressed as a percentage of total properties	#					
CASH						
11. Leakage - reduction in overall leakage (million litres per day)	168.06	169.0	162.90	157.0	135.5	135.5
12. Operating margin - excluding exceptionals (%) (note 2)	#	#	24.90 Note 4	25.44	26.34	32.63*
13. Comparative operating cost efficiency (figures expressed in £m from a 2003/4 base (note 3))	#	24.6	Note 5	29.8	44.0	55.6*
14. Comparative capital efficiency (expressed as a percentage of total capital expenditure (%))	#	#	Note 5	2.1	17.0	19.3*
15. Billing - percentage of bills issued on time	#					
16. Average number of debtor days outstanding	#					
PEOPLE						
17. Health and safety - reduction in the number of 'days lost' due to accidents based on the previous three year average of 'days lost'	650	935 Note 6	271	620 Note 6	[5% Reduction]	[5% Reduction]
18. Health and safety - reduction in the number of 'lost day' accidents based on the previous three year average of 'lost day' accidents	19	19 Note 6	10	18 Note 6	[5% Reduction]	[5% Reduction]
19. Manpower numbers - number of posts	1,744	1,911	1,786	1,881	1,412	#
20. Staff attendance (%)	94.20	95.42	95.8	96.50	#	#
21. Staff satisfaction levels - increase in the number of staff saying Northern Ireland Water is a good place to work from 2005/06 result (%)	#	#	#	20	60	#

Appendix A

Key Performance Indicators (KPIs)

KPI	Actual 2006	Target 2006	Actual 2007 (6 months)	Target 2007	Target 2009	Target 2014
COMPLIANCE						
22. Drinking water quality – percentage compliance with the Water Supply (Water Quality) Regulations (NI) 2002:						
(a) taking into account Authorised Departures	99.66	99.70	99.60	99.72	99.81	99.90
(b) not taking into account Authorised Departures	99.42	99.45	99.27	99.60	99.80	99.90
23. Mean zonal compliance - water quality at the tap (%)	99.33	99.33	99.21	99.44	99.77	99.90
24. Operational Performance Indicator (Turbidity, Iron & Manganese) (%)	99.33	98.87	98.99	98.90	99.00	99.65
25. Wastewater quality (note 1) - wastewater treatment works serving greater than 250 population equivalent achieving compliance with Northern Ireland Water Order Consents expressed as a						
(a) percentage of works %	84.0	84.0	85.30	84.0	91.0	100.0
(b) percentage of population equivalent %	76.9	76.0	85.63	82.5	94.0	100.0
26. Wastewater Treatment Works passing Urban Waste Water Treatment Directive numeric consents (%)	#	#	89.61	80.2	92.4	100.0
27. Pollution incidents (high/medium) - reduction in the number of pollution incidents attributed to NIW based on the 2004/2006 average	#	#	43	46 Note 6	[11% Reduction]	[32% Reduction]
28. Completion of schemes costing over £250k scheduled to start in the Capital Works Programme (%) †	93	90	27.6	90	90	90

Notes to table

Note 1: This target includes a small number of wastewater treatment works with < 250 population equivalent and an Environment and Heritage Service numeric discharge standard.

Note 2: Operating margin calculated as net surplus/deficit on operations before interest and cost of capital charges (after adjustment for voluntary early departure and one-off transformation costs) divided by total revenue.

Note 3: Efficiencies expressed in 2006/07 prices.

Note 4: Not adjusted for Voluntary Early Retirement (VER) or one-off transformation costs.

Note 5: The systems to report against the efficiency targets are being developed in conjunction with the Utility Regulator.

Note 6: Target equates to a 5% reduction.

Key to table

Not measured / no target

* Target to 2013/14

† This target is set on a financial year basis in line with targets 1 to 21. Targets 22 to 27 are set on a calendar year basis.

□ On target

□ Cause for concern

□ Likely to fail

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