northern ireland
water

Annual Report
2009/2010

Northern Ireland Water Limited

Annual Report and Accounts

for the year ended 31 March 2010

The Accounting Officer authorised these financial statements for issue on 29 June 2010

Laid before the Northern Ireland Assembly under Article 276 of the Water and Sewerage Services (Northern Ireland) by the Department for Regional Development on 23rd July 2010

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About this report

Northern Ireland Water (NI Water) is pleased to present its Annual Report for the year ended 31 March 2010. This report sets out the performance for the final year of our Strategic Business Plan period (2007-10). The report also provides a comprehensive analysis of our current business and describes significant industry trends that are likely to influence future prospects. We hope that this report will be of use to all our stakeholders and would welcome feedback to develop our future reporting.

Northern Ireland Water is a trademark of Northern Ireland Water Limited, incorporated in Northern Ireland, Registered Number NI054463.

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

HIGHLIGHTS

What we do…
NI Water is responsible for the delivery of water and sewerage services in Northern Ireland (NI).

What we did…
- Delivered clean safe drinking water to approximately 798,700 households and businesses;
- Supplied 622 million litres of good quality drinking water every day to customers through more than 26,435 km of water mains;
- Collected 338 million litres per day of wastewater from 654,000 businesses and households connected to the sewerage system; and
- Transported sewage through approximately 14,465 km of sewers to works where it was treated and disposed of safely.

Our aim…
"To take a customer-centric approach, so that emphasis on compliance as a goal in itself is replaced by compliance with quality standards, as one of the services offered to customers"

Our achievements…
NI Water was appointed the sole provider of water and sewerage services in Northern Ireland on 1 April 2007 and has taken great strides forward in revolutionising the local water industry. Substantial service, environmental and financial improvements have been made over the first three years of the Company's existence. These achievements allow us to look forward to our first regulated price control (PC10) period (2010-13) with confidence, excitement and focus in the knowledge that we play a vital role in every aspect of life in Northern Ireland.

Customers…
delivering high-quality customer services
- Improved from 19th to 3rd out of 24 companies for customer satisfaction;
- Dealt with over 350,000 customer calls in the year, on average over one thousand five hundred per working day; and
- Achieved an average score of 4.6 out of 5 in our quarterly Customer Satisfaction Surveys.

Cash…
creating value for money through a sustainable service
- Delivered against the operational cost efficiencies target of £53.8m from a 2003/04 base;
- Achieved capital cost efficiencies of approximately £89m against a target of £86.2m of the total capital programme over the SBP period; and
- Absorbed a reduction from budget in income of £11m during the year.

People…
building the capacity to deliver
- An improved focus by all staff on reducing related accidents resulting in absence;
- Successful implementation of the Voluntary Early Retirement and Severance Schemes; and
- Move from a focus on the provision of more traditional operationally focused transaction services to a focus on strategic interventions.

Compliance…
investing for the future
- Continued to invest efficiently at a rate of over £1m per working day for customers and the environment;
- Continued to improve compliance results, producing the best ever results for NI for drinking water quality and discharges to the environment; and
- Completed over 90% of our major capital schemes.

External stakeholders…
building strong relationships and operating responsibly
- Worked within the requirements of our Regulatory Licence and Shareholder Governance Letter;
- Delivered the Annual Information Return (AIR) 09 to the Utility Regulator (UR); and
- Working with both the UR and the Department for Regional Development (DRD) to come to an agreement on a final settlement for the PC10 period.

CHIEF EXECUTIVE'S FOREWORD

This Annual Report for 2009/10 marks the final year of NI Water's three year Strategic Business Plan (SBP), which commenced with the Company's creation in April 2007. It is therefore an appropriate time to reflect on the progress made by the Company over the course of these three years.

The achievements of this period include:

- delivery of the best ever water and waste water quality standards for Northern Ireland;
- approximately £762m investment in our water and waste water infrastructure including the completion of the £160m Belfast Sewers Project;
- delivery against our operating cost efficiencies target of £53.8m. Work has included a reduction in the size of the organisation and the removal, where possible, of a reliance on consultants;
- improving the capacity of our people through a programme of skills transfer to support the reduced use of consultants, plus reduced days lost to sickness and work related accidents;
- improved Customer Service and delivery of our key customer KPI's, including agreement on a Customer Charter with the Consumer Council for Northern Ireland (CCNI);
- continued successful engagement with our stakeholders and the extension of our Corporate Responsibility work within the community; and
- improvements in our financial control environment and standards of data quality.

The effect of all of this work during the SBP period, has seen real and sustainable improvements for our customers and the environment, further addressing the legacy of historic under investment in water and sewerage services.

Everyone on the NI Water team has played a part in achieving these successes and much of this work has been done in frequently challenging conditions as the organisation has reduced in size and adapted to more efficient ways of working. This year we also saw much evidence of the commitment of our people with several major incidents requiring an immediate and sustained response; most recently when the freezing winter weather required many of our teams to work long and unsocial hours over the Christmas holidays.

2009/10 also saw the discovery of a number of governance problems. To fully understand the extent of these problems, an independent review was established. The report of the independent review was made available to the Minister for Regional Development with detailed findings and a number of recommendations for improvement. The Minister took a decision to remove the Chairman and three other Non Executive Directors from the Board. I have been tasked with implementing the relevant recommendations within the report. While it has been a difficult period for the Company, the result will be a greater focus on governance and the development of a control environment appropriate to an organisation in receipt of our level of public subsidy.

As Chief Executive my focus for the coming year will be on our core business – the delivery of the most cost efficient and high quality water and waste water services possible. Key targets for 2010/11 will include:

- reducing costs and improving the efficiency of NI Water through a series of corporate projects and initiatives targeted at delivering cost savings of more than £12m within the year;
- delivering further improvements in water and waste water standards and reducing leakage levels;
- improving Customer Satisfaction by reducing the time taken to respond to our customers and by better understanding the root cause of their complaints; and
- improving our control environment by implementing the recommendations of the Independent Review Team.

Operating and Financial Review

NI Water's Business Plan 2010-13 was due to be agreed with the Utility Regulator (UR) at the conclusion of the 'Price Control' (PC10) planning process that commenced early in 2009. However, at the time of writing, an agreed settlement between all stakeholders has not yet been reached.

In the absence of such agreement, the level of NI Water's settlement has been agreed by the Northern Ireland Executive and will largely reflect the targets suggested by the UR in their PC10 Final Determination.

These efficiency targets are extremely challenging, but I am confident that with determined focus on our core services and an innovative approach to our business, these targets will be reached and we will create a more sustainable and therefore more secure organisation.

Laurence MacKenzie

Chief Executive
29 June 2010

STRATEGIC OVERVIEW

The key theme of NI Water for the 2010-13 period is to take a customer-centric approach, so that emphasis on compliance as a goal in itself is replaced by compliance with quality standards as one of the services offered to customers. NI Water's approach puts customers first, reflecting strategic focus and culture, with the key themes of customer, cash, compliance and people underpinning overall customer focus. ***Figure 1*** shows NI Water's strategic objectives for PC10.

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

	Objective	How NI Water will deliver the Objectives in 2010-13.
Customer	Improve customer satisfaction	• Improve performance against overall customer satisfaction and against the weighted customer priorities set out in the Business Plan.
	Provide value for money for customers	• Ensure that procurement and operational processes are efficient, consider people costs and people efficiency. • Choosing least cost solutions to achieve compliance and constantly improving levels of service.
Cash	Deliver PC10 efficiency targets	• Deliver operating efficiencies in both water and sewerage. • Deliver capital efficiencies for the next three years.
	Ensure controlled and sustainable finances	• Plan to maintain threshold cover against key financeability ratios without need for a revenue adjustment. • Build up provision for cost shocks. • Plan against a sustainable cost of capital. • Ensure efficient non-domestic customer billing.
Compliance	Provide good quality water and wastewater	• Complete schemes required by NIEA* to achieve 100% compliance with the Urban Wastewater Treatment Directive. • Make substantial improvements to compliance against other legal requirements and reduce significant pollution incidents during 2010-13. • Dispose of sludge from treatment works cleanly and safely. • Maintain serviceability of NI Water assets. • Achieve compliance with DWI* requirements for drinking water.
	Develop an effective and controlled business	• Further transformation of the business's systems and processes. • Adoption of a new business operating model [BOM] and governance structure.
	Deliver stakeholder requirements	• Understanding and meeting the UR requirements for monitoring in 2010-13 (Monitoring Plan and AIR) and for the PC13 Business Plan. • Understanding the requirements of NIEA for environmental compliance and DWI for drinking water quality. • Understanding and meeting DRD's requirements as shareholder to NI Water. • Understanding and meeting the expectations of other key stakeholders (annual report, customer literature, environmental reporting, submissions to DWI and HSE*). • Focus on improving data quality through improved collection and data capture processes.
People	Develop a team performance culture	• Ensure proper governance, feedback and appraisal system to encourage staff development. • Manage people to deliver high performance. • Reward good performance. • Promote and monitor core capability levels among NI Water staff and actively seek improvement.
	Champion health and safety	• To ensure the currently good level of health and safety improves even more, set a vision for zero accidents by reducing accident rates by 25% over 2010-13.
	Make NI Water a great place to work	• Actively improve employee engagement scores through valuing employees, and developing a 'can do' culture. • Invest in employee skills development. • Attract and retain high performance individuals.

NIEA (Northern Ireland Environment Agency), DWI (Drinking Water Inspectorate) and HSE (Health & Safety Executive).

The strategic objectives developed for the PC10 Business Plan evolved from a lengthy involvement by NI Water in stakeholder work groups; adoption of the priorities detailed in the DRD Social & Environmental Guidance, and an awareness of the results of the customer survey commissioned by NI Water and carried out by the Consumer Council for Northern Ireland (CCNI). The Business Plan outlined the key activities that NI Water would undertake. These are reproduced in ***Figure 2***. Output targets in respect of these activities are given in ***Annex A***.

Figure 2 – Summary of activities to meet the key priorities set out in DRD's Social & Environmental Guidance (S&EG)

S&EG priority	NI Water's planned activities	Link to customer weighted priorities
1. Meeting EU quality obligations (statutory driver)	• Complete quality enhancements in the prioritised list of schemes agreed with NIEA and DWI for delivery in 2010-13. Make significant improvements at small and medium wastewater treatment works. • Address immediate new development pressures for mixed quality and supply demand driven schemes. • NI Water have not been able to include schemes specifically aimed at reducing immediate development pressures, and have excluded these from our plan.	• Pollution to inland waters was customers' 2nd priority, and reducing pollution to coastal waters was 4th. Safety of tap water was 3rd priority. • Reducing frequency of water supply restrictions was low priority (16th) hence the focus is on immediate pressures.
2. Improving service levels (non-statutory driver)	• Significant improvements to the register of properties at risk of 'out of sewer' flooding (the DG5 register) prioritising internal flooding. Reduce the number of properties at risk of internal flooding by 200. • Improve customer information systems (for example install CRM, improve call handling) and customer service measures (DG8-9). • Adopt a business operating model that prioritises customers. • Improve the accuracy and reliability of information reported by the business (e.g. upgrade the activity costs capture system, upgrade Oracle), and transform operational data capture (e.g. improve GIS, telemetry, and the corporate asset register). • Reduce supply interruptions >6 hours. • Reduce the number of pollution incidents.	• Customers' main priorities are reflected here, including: • Sewer flooding (1st). • Customer service systems improvements to ensure better response time (5th), ease of telephone contact (7th) and complaints handling (9th).
3. Water leakage and pressure (non-statutory)	• Reassess the economic level of leakage (ELL), meet revised target ELL. • Continue to develop and improve the quality of the DG2 Register and remove 800 properties from this register.	• Reducing leakage was 12th priority. Low pressure was 15th.
4. Surface flooding (non-statutory)	• In the context of NI Water, surface flooding means external 'out of sewer' flooding incidents. NI Water will work with other responsible agencies to respond effectively. • Improve the DG5 register of sewer flooding incidents to help to reduce the risk of surface flooding in situations where NI Water is responsible.	• External flooding in public spaces was 6th priority, flooding outside areas which people see was ranked 14th.
5. Longer-term EU requirements beyond 2013 (statutory driver)	• Investigations relating to Water Framework Directive and Urban Wastewater Treatment Directive compliance. • These mandatory investigations will contribute to future compliance targets and schemes.	• This links to customers' priorities for reducing pollution (2nd and 4th).

6. Sustainability and climate change (non-statutory drivers, and Carbon Reduction Commitment)	The innovation programme includes projects to improve NI Water's technology or processes, including several that address sustainability. For example: • Increase sustainable power generation at wastewater treatment works. Introduce sustainable local power solutions for small works, increase power efficiency through process control and choose solutions that lower consumption. • Sustainable catchment management, sustainable treatment solutions. • Automatic unblocking of pumps for sewage pumping stations. • Improved coagulation control to minimise use of chemicals for water treatment. • Low cost solutions for monitoring stormwater discharges. Other initiatives to promote sustainability include: • Continuation of our education programme, and promoting the efficient use of water among our customers. • Produce a 25 year Strategic Direction Statement for 2013-38.	• Reducing carbon emissions was 11th priority. • Reducing the frequency of water supply restrictions was ranked 16th. • Sustainability overall was seen as a longer term priority as reflected in the designation as priority 6.

OPERATIONAL PERFORMANCE, MANAGEMENT OF RESOURCES AND FINANCIAL PERFORMANCE

Business overview

"NI Water aims to provide real and sustainable improvements for customers and the environment."

From its creation in April 2007 NI Water has faced numerous challenges in its journey through the initial three year Strategic Business Plan period. Significant investment amounting to £1 million per working day helped to upgrade the antiquated infrastructure system inherited from the days of the Water Service. Already the people of Northern Ireland are benefiting from this as it has helped to provide the highest quality of water and wastewater ever recorded. Improvements to customer services in the face of demanding efficiencies have shown an ability by NI Water to deliver an essential service in a credible manner in difficult circumstances. It is now the aim of the Company to improve even further on its delivery of this service in the PC10 period.

Factors affecting the economic performance

Economic factors

The main economic factors that could affect the Company's performance are:
- overall performance of the Northern Ireland and world economy;
- change in demand due to changes in NI Water's customer base; and
- unexpected changes in input cost inflation.

The continued economic downturn over the last twelve months has had an impact on the financial performance of NI Water. Consumption levels have decreased further leading to a reduction in measured and unmeasured income. Although very uncertain still at this point, it is predicted that the UK Economy will show modest spending growth in 2010 and 2011 as we recover from recession. The population in Northern Ireland is projected to increase from 1.789m in 2009 to 1.802m in 2010 (+0.73%). This would suggest that demand should remain relatively constant.

Further reductions in consumption across the business sector in Northern Ireland led to a under-performance against budgeted income of over £11m. However, reductions in staff costs, operating costs and business improvement costs of £11m meant that this could be absorbed. This was due to effective and efficient management of the cost base.

Regulatory factors

The business planning process for 2010-13 commenced with NI Water's PC10 submission to the Utility Regulator (UR) in June 2009. This was a detailed piece of work which set out the Company's plans and funding requirements for the PC10 period. In September 2009, the UR published a Draft Determination on these proposals. Compared to the Business Plan, the Draft Determination set some very significant cost reductions and increased outputs.

NI Water consulted closely with the UR, other stakeholders and with professional advisers to fully understand the implications of the document and what it would mean for the Company and submitted a detailed Response to the Draft Determination to the UR. The UR subsequently published its Final Determination in February 2010. During a comprehensive study of the Final Determination it became apparent that it would not be possible for NI Water (categorised as a Non Departmental Public Body) to accept a three year regulatory price control settlement while receiving the bulk of revenue in the form of subsidy from the Department for Regional Development. There would therefore be some uncertainty as to the level of funding available for years 2 and 3 of the PC10 period.

On 2 April, the Board of NI Water informed the UR that it was not in a position to accept its Final Determination.

Discussions are continuing within the Water Senior Stakeholder Group* to arrive at an agreeable solution for all parties. Any funding available will be subject to the agreement of the NI Executive and will, in any case, undoubtedly represent a significant efficiency challenge for the organisation.

This raises uncertainties as to factors that may impact NI Water's performance. The actual regulatory determination will have a clear impact on what NI Water will be able to achieve in the medium term, specifically the efficiency improvements and output targets that will be set.

* This group is represented by NI Water, the UR, the Consumer Council for Northern Ireland (CCNI), NIEA and DRD.

CUSTOMERS…

Providing Quality Service to Customers

Customer billing and contact

NI Water is committed to providing a high quality of service to customers and, to this end, customer satisfaction is important. Quarterly independent market research, first introduced in 2007/08, continues to be carried out on the Company's behalf. Having commenced 2009/10 with a score of 4.46 and ranking 19th out of 24 companies, this improved during the year to;

- 3 overall (of 24 companies); and
- 1 of Water and Sewerage companies (of 12) with a fourth quarter score of 4.8. Overall the target of 4.6 was achieved.

During 2009/10 NI Water experienced a number of major incidents due to water quality, water supply or flooding. In April a routine sample taken from Dunore Point indicated an apparent water quality failure, with an estimated 225,000 customers potentially affected. The Company immediately activated its major incident response plan to establish the cause of the failure and launched intensive media bulletins to advise affected customers. Further tests confirmed that the water quality had not failed and the water was safe.

Over the Christmas / New Year period, Northern Ireland witnessed the worst winter for 30 years. As a result of the prolonged freezing conditions, NI Water experienced significant numbers of burst watermains leaving many of our customers without supplies. Despite the extreme conditions, staff worked tirelessly to restore supplies to customers affected. Throughout the year a number of flooding incidents were dealt with and the Company's Incident Plan Procedures were activated in response to these incidents.

In 2008 NI Water and CCNI undertook a joint research project to determine what customers' priorities were concerning water and sewerage services. This research was used to reinforce investment priorities over the PC10 period. CCNI also proposed 24 recommendations arising out of the research on water quality, flooding, environmental and customer services. Building on the independent research of consumer views, NI Water has worked closely with CCNI and other stakeholders and as a result, of the 24 recommendations, 18 have either been completed or are nearing completion, with the remainder planned for completion during 2010/11.

In October 2009 a new approach was implemented on how written complaints are handled, with the aim of:

- reducing the time taken to respond to customers;
- reducing the number of complaints received;
- identifying and addressing the root causes of complaints; and
- improving our overall customer service.

This has significantly improved Company performance with the average time taken to respond to written complaints now reduced to 6 days, outperforming the target for the percentage of written complaints responded to in 10 days.

Following from work commenced in 2008/09, further work was completed on systems to improve the quality of information delivered to NI Water's customers.

Customer contact

NI Water dealt with over 350,000 customer calls in 2009/10, arising from a number of factors including, as previously mentioned, the prolonged freezing conditions over Christmas/New Year, flooding during August and October 2009 and the incident at Dunore Point during Easter 2010.

During the period over Christmas/New Year, four times the volume of expected calls were received. As a result the Company missed its 2009/10 KPI on telephone contact with a performance of 96.68% against a target of 98%.

Codes of Practice

Following the launch of the 'Priority Services' Codes of Practice in January 2009, NI Water has continued to promote this range of extra services for customers with a disability: the elderly and those with a serious medical condition or need extra help for any other reason. The Company now holds a register of all customers who would like to be classified as 'Priority' and benefit from extra services.

The current suite of Codes of Practice have been reviewed with CCNI and were recently submitted to the UR in keeping with the Licence obligation that these be reviewed every three years. Further work is planned with CCNI to develop and re-launch the Priority Services within a wider NI utility context.

Non-domestic charges

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

Unmeasured water and sewerage charges continued to be billed at 50% of the full charge. The charges are published in the Company's Scheme of Charges available on www.niwater.com/watercharges or by writing to NI Water, PO Box 2026, Belfast, BT1 9DF.

Metering programme

NI Water has continued its programme of installing meters on all new properties with first time connections to the water supply system, in accordance with existing legislation, and on existing unmeasured non-domestic properties where possible. NI Water will continue the metering of new build properties and first time connections in 2010/11, as well as continuing the programme of meter installations on unmeasured non-domestic properties. All meters installed on domestic premises will not currently generate a charge or bills.

Account Management

In the course of developing relationships with non-domestic customers and the business community, NI Water is reviewing its Account Management Strategy. Alongside the existing Key Account service for large customers, we are aware of the need to focus more attention on small/medium enterprises, particularly in the current economic climate. During 2010/11, the Company will assess the potential for Account Management development in the course of reviewing how NI Water builds its business to serve its customers.

CASH...

Efficiencies

NI Water delivered against our £53.8m operating cost efficiencies target from a 2003/04 base and an approximate £89m capex efficiency saving over the three year SBP period. The operating cost efficiencies are generated by factors which include the following:

- manpower reductions resulting from the introduction of improved ways of working such as Mobile Work Management ("MWM"); and
- reductions in headcount; and
- depot rationalisation.

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

- programme of value engineering to limit scope of capital projects while ensuring delivery of required outputs;
- improved procurement of capital projects, e.g. bundling of projects;
- standardisation of components used for capital projects; and
- development of unit costs to benchmark the costs of capital components.

Accounting Policies

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). In the process of applying the Company's accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. A full listing of the accounting policies can be found in the notes to the financial statements.

Financial results

The Company's profit and loss account as presented on page 46 is summarised in ***figure 3*** below. Turnover was £352.3m for the year to 31 March 2010 (31 March 2009: £331.6m). Included in turnover was £277.1m (2009: £267.5m) received from DRD (Subsidy £257.4m; Road Drainage Charges £19.7m) - the remainder being measured and unmeasured charges and miscellaneous income. The subsidy covered the full domestic charge and the Northern Ireland Executive has decided that this arrangement will remain in place during 2010/11. The final decision on domestic charging for 2011/12 and beyond has not yet been taken by the Northern Ireland Executive.

Figure 3 – Summary Profit and Loss Account

	2009/10 £m	**2008/09 £m** *
Turnover	352.3	331.6
Operating profit	89.5	68.8
Net interest payable and other finance charges	(37.7)	(20.1)
Profit before tax	51.8	48.7
Taxation	(14.5)	(13.8)
Profit after tax	37.3	34.9

* 2008/09 has been restated for a prior year adjustment which decreased reported profit by £618k (see note 29 to the statutory accounts for more details).

Profit on ordinary activities before interest for the year was £89.5m. Operating costs in 2009/10 of £262.7m were impacted by a number of factors including inflationary pressures on power costs and the extensive Business Improvement Programme. The tax charge for the year was £14.5m. The effective tax rate for the year to 31 March 2010 was 28.1% (2008/09 28.3%). The Board will consider a proposal to declare a dividend of approximately £36m in July 2010.

Capital Structure

The balance sheet at 31 March 2010 as presented on page 47 is summarised in **figure 4.** Net assets decreased by 1.0% to £717.6m. The main movements in the balance sheet items were increases in fixed assets of £192.3m relating to our commitment to investment in the Capital Works Programme offset by increases in net debt. The Company net debt figure was £722.2m at 31 March 2010 (£544.5m at 31 March 2009). Gearing increased from 38.5% to 46.7% reflecting the draw down of loans under the Unsecured Loan notes 2027 Instrument.

Figure 4 – Summary Balance Sheet

	Assets £m	Liabilities £m	31 March 2010 Net Assets £m	31 March 2009 Net Assets £m *
Fixed assets	**1,621.5**	**-**	**1,621.5**	1,429.2
Other current assets and liabilities	**43.4**	**(135.5)**	**(92.1)**	(94.7)
Other non current assets and liabilities	**-**	**(48.5)**	**(48.5)**	(40.4)
Deferred tax	**-**	**(43.4)**	**(43.4)**	(31.0)
Pension asset	**2.3**	**-**	**2.3**	5.9
Total before net debt	**1,667.2**	**(227.4)**	**1,439.8**	1,269.0
Net debt	**-**	**(722.2)**	**(722.2)**	(544.5)
Total as at 31 March 2010	**1,667.2**	**(949.6)**	**717.6**	724.5
Total as at 31 March 2009	1,466.8	(742.3)	724.5	

* The balance sheet at 31 March 2009 has been restated to reflect a prior year adjustment which reduced fixed assets and reserves by £6.4m (see note 29 to the statutory accounts for more details).

Cash flows and debt

Operating activities generated a net cash inflow of £139.7m (2009: £134.1m). Net cash outflows of £38.0m (2009: £20.4m) related to returns on investment and servicing of finance. This includes interest costs of £26.9m (2009: £18.0m), interest receivable of £0.3m (2009: £1.8m) and interest element of PFI arrangements £11.3m (2009: £4.2m). Net investing activities used £245m (2009: £263m). Dividends paid during the year totalled £35.0m in respect of the previous financial year. In order to meet the requirements of the above net outflow there was an increase in the financing requirement over the year. Net debt at 31 March 2010 was £722.2m (2009: £544.5m). The increase in net debt was financed through an increase in net financial liabilities due after one year. The Company's working capital requirements are met from a committed working capital facility of £20m and from available positive cash balances. Interest is accrued on the working capital facility at floating interest rates based on London Interbank Offer Rates (LIBOR).

Treasury policies and objectives

Funding and treasury risk management functions are managed centrally by the Treasury function within the Finance and Regulation Directorate of NI Water. During the year the Treasury Forum continued to operate as an advisory body to the Board and the Executive Committee. It performs a review and oversight role for Treasury policies, proposals and the operations of the Treasury function. It also provides a means for approving transactions in accordance with authority delegated from the Board.

Pensions

From April 2007 all employees of NI Water have been automatically entered into the new NI Water Pension Scheme. The Scheme is a separate legal entity with NI Water as the principal employer. It has a benefits structure which is a 'mirror image' of the Civil Service Scheme in April 2007 and it currently has 287 pensioners.

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

During 2010/11, NI Water will:

- seek to conclude the Bulk Transfer of monies from the Civil Service Scheme to the NI Water Pension Scheme. This is to fund the accrued pension benefits of staff who transferred their Civil Service pension entitlement into the Scheme; and
- work closely with the Scheme's Trustees and advisers to ensure the effective running of the scheme to the advantage of all members.

Atypical operating expenditure items

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

Figure 5 – Atypical and reorganisational operating expenditure items

Expenditure item	**2009/10 £m**	**2008/09 £m**
Business Improvement Programme	**6.4**	8.4
Voluntary Early Retirement scheme	**5.1**	11.7
Increase in environmental and contractual provisions	**4.8**	0.9
Freeze / Thaw	**0.5**	-
Total	**16.8**	21.0

Leakage

For the 2009/10 year the average amount of leakage lost from the water distribution system was 186.9 Ml/d. The winter freeze and subsequent thaw during the period from December 2009 to February 2010 had a very significant impact on the leakage figure.

NI Water was making good progress and was on target to achieve an annual reduction of 4.0 Ml/d leading to a reported level of leakage of 176.9 Ml/d. The effect of the extreme weather in late December, January and early February changed this outlook dramatically and leakage levels increased significantly. The impact of the weather meant that a major incident team was set up within the Company to manage the situation. During January 2010 the amount of water being produced from our water treatment works reached a peak of 800 Ml/day whereas figures of below 600 Ml/day were recorded during November 2009. Although it is reported as being the coldest winter for 30 years sustained progress has been made in retrieving the additional leakage that was incurred during this difficult period.

NI Water continued during 2009/10 with the Water Balance Action Plan to address key components of the leakage calculation in order to improve known uncertainties in the previous methodology. This will be concluded within the AIR10 timeframe and has resulted in greater confidence in base data, improved documentation of the main processes and an increased number of company specific calculations where previously industry averages were employed.

PEOPLE...

Building the capability to deliver

NI Water recognises the importance of its employees in delivering its strategic objectives.

HR Services Delivery Model

The HR Function within NI Water is undergoing significant transformation. Through the implementation of the HR projects in relation to the One Programme projects, the Company is implementing far reaching strategies which will affect not only NI Water as an organisation but also how the HR Function is viewed and interacts with the other business Directorates e.g. pay & grading review, people efficiency, flexible working review, terms & conditions review, HR process review and the HR IT system implementation.

Through ongoing consultation with the business, it was evident that more is required of NI Water in relation to service delivery and alignment of the Function with the expectations of the rest of the business. The focus of the HR Function became a move from the provision of more traditional operationally focused transaction services to a focus on strategic interventions.

This "internal looking" HR project commenced during the year with a view to achieving the following initiatives:

- Implementation of the outputs of the HR process review;
- Implementation of any technical enhancements to the HR IT system identified through the process review;
- Implementation of the HR service delivery model;
- Closer integration of the Learning and Development function within the overall HR Function;
- Continuing support and knowledge transfer in connection with the People Efficiency Project;
- Review of the HR Intranet site – implementation of identified amendments;
- Data 'cleanse' of the existing employee details held on Oracle and a purge of all hard copy personnel files in relation to all non essential documentation; and
- Support for the implementation of the 'One Stop Shop' approach to recruitment in tandem with NI Water preferred supplier.

The HR project team have achieved all deliverables and in the process of communicating the new operating model to all stakeholders.

HR Policy Development

Consultation has continued throughout the year with all Trade Unions with a view to reaching an agreement on a range of HR policies. So far five have been accepted and the Company hopes to conclude consultations on a further eight, representing a significant achievement. These policies will replace Northern Ireland Civil Service (NICS) policies and have been updated to reflect employment legislation and good employment practices.

People Efficiency Programme

NI Water successfully completed the knowledge transfer and has developed the internal capability to support the implementation of the various early release schemes across the business.

A number of Directorates presented documentation to support staff reduction targets which formed the basis for successful consultation with all trade unions. Employees in affected groups and functions were advised of efficiency targets but it was also the Company's intention to achieve same by voluntary means in addition to the application of good preventative management practices to mitigate the impact.

The scheme design has again proved attractive with a good response rate which has enabled efficiencies to be achieved by voluntary means so far. As a result of implementing new structures within Directorates some employees have been identified as "surplus" and the Company is currently skills matching as many employees as possible against known vacancies. However, it cannot guarantee that all will be re-deployed.

Attendance Management

HR Advisers within the Company have been case managing long-term sick absentees during 2009/10 in consultation with line managers. This dedicated management, coupled with increased referral to Independent Occupational Health, has seen a continued improvement in attendance during this financial year from 95.3% to 96.8% and a subsequent reduction in long-term absentees to 13 by the end of March 2010. This represents a significant financial saving (1% equates to £560k of salaries budget) and productivity gain and means that the KPI for the year was achieved.

Reward and Employee Relations

During 2009/10 NI Water successfully introduced a new pay and grading system for around 800 non-industrial employees. This followed a review of the previous NICS-based pay and grading systems which had operated since NI Water came into being in April 2007. The review acknowledged that the existing system was not sufficiently aligned to the changing business requirements of the Company. Proposals for a new pay and grading system which were subject to a lengthy period of negotiation were finally agreed with the employees' trade union in September 2009. The new pay and grading system will deliver a number of key change objectives which include:

- a de-layered organisational wide grading framework designed to support more effective reporting and working relationships as required by the company;
- a remuneration framework to recruit and retain the necessary specialist skill sets required to deliver and support change;
- a simplified salary band structure providing clarity for employees regarding their pay progression and career development; which would be supported by
- a new performance management system which will be strongly output focused with the associated link between pay and performance providing both incentive and leverage to employees to firmly deliver outcomes.

HR Business Partners

The HR Business Partner's have supported the business in a number of key initiatives:

- Implementation of new structures;
- Job evaluations;
- Manpower planning and headcount reporting;
- Omega project;
- Insourcing / outsourcing arrangements;
- Business Plan roll-outs; and
- PEP schemes.

Learning and Development Centre

The Learning and Development Centre was restructured to ensure value for money and the provision of appropriate learning and development intervention to support NI Water business objectives. In addition the following activities were completed:

- a thorough training needs analysis was conducted to enable the design and delivery of tailored Management Development Programmes in-house in the PC10 period for level 3, 4 and 5 Managers.
- the performance management system has been revised to include a competency framework designed to support NI Water Values.
- the Graduate and Apprenticeship schemes have continued to be successfully implemented within NI Water.

Health and Safety (H&S)

The strategic H&S Action Plan, which was developed to deliver against NI Water “Zero Accident Ambition” continues to be updated. H&S action for improvement is now firmly focused on “Behavioural Change”.

NI Water delivered a H&S Autumn Programme in 2009, which engaged staff and contractors at all levels to make a difference and report near-miss incidents so that measures could be taken to remove the potential for accidents in the workplace.

“Near-miss” reporting targets, which were set for 2009/10 for both NI Water and Contractors, have been surpassed. This has resulted in continuing reduction in the number of accidents in the workplace and an associated reduction in accident related absence which has reduced by 68% on the 2008/09 out-turn.

A new “Working Safer” campaign was developed for introduction in April 2010 and is again aimed at reducing workplace accidents and designed to deliver against new and more challenging H&S targets for 2010/11. The campaign will be supported through established communication channels and by a further engagement programme in Autumn 2010.

COMPLIANCE...

Investing for the future

Drinking Water compliance

Drinking water compliance at the customer tap has, for the first time, exceeded the recognised Social and Environmental Guidance aspiration of 99.70% Mean Zonal Compliance (MZC). The outturn for 2009 was 99.74% MZC and as such also exceeded our internal target of 99.70%. Work continued throughout 2009 to minimise chlorine levels and residence times in distribution. This, in combination with the commissioning of the Alpha Public Private Partnerships (PPP) treatment works has resulted in a significant drop in Trihalomethane levels at the customer tap. The Alpha PPP works were commissioned in late 2008 and have contributed to the improvement in MZC by minimising the impact of fluctuating raw water quality. Northern Ireland has inherited a legacy of acute under-investment in water and wastewater.

Water Resources

NI Water input water to the distribution system from approximately 40 sources, including PPP sites, which comprised upland impounding reservoirs, boreholes, rivers and loughs. NI Water, through its Water Resource Strategy, has planned to ensure that demand for drinking water is met for the period up to 2030. A revision of the 2002 Water Resource Strategy (WRS) is currently being produced and will be known as a Water Resource Management Plan (WRMP) to match the terminology used in the Water and Sewerage Services (Northern Ireland) Order 2006. The plan will cover the period up to 2035. Public consultation will take place between May and September 2010 with a Final Plan in place by April 2011. The WRMP seeks to improve the NI Water security of supply and will acknowledge the implementation of the 2002 WRS to date and continue to emphasise the need to rationalise existing uneconomic water sources and concentrate on the sources that can meet our needs cost effectively and reliably; together with leakage reduction and demand management.

Water Quality Regulation

In 2004 the Water Supply (Water Quality) Regulations (NI) 2002 came into force (see also Water Supply (Water Quality) (Amendment) Regulations (Northern Ireland) 2009). These regulations implement the EC Drinking Water Directive (Council Directive 98/83/EC on the quality of water intended for human consumption). They fully incorporate, and go beyond, the requirement of the Directive and introduce tighter quality standards, particularly for lead and other health related parameters. They allow a time limited, authorised departure from the regulatory limit for certain parameters, provided that there is a planned programme of work at the Water Treatment Works to improve the water quality, and provided that there are no adverse health implications arising from the departure. The Amendment Regulations of 2009 build on the concept of risk management for drinking water supply systems by ensuring that Drinking Water Safety Plans (DWSPs) are implemented in NI. NI Water has been working on DWSPs which encompass risk assessments for supply systems from catchment, through treatment and distribution to the customer tap. NI Water is on track to deliver the Regulatory obligations with respect to DWSPs to the Drinking Water Inspectorate by December 2010. NI Water continued to meet the obligations placed upon it to comply with regulatory standards and heightened demands due to increased customer expectation. Investing in the extension and upgrading of water treatment works and lowering inherent risk, remains a top priority.

Wastewater Treatment Compliance

NI Water has reached the end of the 3 year Strategic Business Plan period during which there was a major investment to improve wastewater treatment facilities. The investment will continue over the PC10 period and lead to increased level of compliance. Positive results from our recent investments can already be seen as compliance with the Urban Waste Water Treatment Regulations reached 93% in 2009. The impact of the Capital Works Programme is also reflected in improved compliance with the Water Order Consents issued by the NIEA. In 2009 over 87% of larger WWTWs were compliant with the Water Order Consent and NI Water achieved its best ever performance with over 91% of the Population Equivalent served by compliant WWTWs. The latter is an increase of more than 10% over the 3-year Strategic Business Plan period.

Completion of further WWTWs over the 3-year PC10 period will lead to increased compliance with Northern Ireland and European standards, thereby contributing to the long term objective of the Water Framework Directive to improve water quality.

EC Bathing Waters

During 2009 NIEA monitored 24 identified bathing waters (under the European Bathing Water Directive) throughout the bathing season which lasts from the beginning of June to mid-September. The Directive contains two standards for the quality of bathing water; a mandatory standard and a more stringent guideline standard. In 2009, 22 of the 24 identified bathing waters in Northern Ireland met the mandatory standard, and 11 met the higher guideline standards. One of the bathing water failures can be attributed to a pollution incident for which NI Water was not responsible.

NI Water has invested heavily in coastal wastewater treatment through its Capital Works Programme and the PPP Contract, particularly in the North Coast and North Down areas where there are a significant number of bathing waters. In addition NI Water has targeted investment in upgrades to sewerage networks with intermittent discharges to bathing waters. For example the Company has completed work on the Ballyholme sewerage network and work on the Lukes Point network is due for completion in the summer of 2010. Both of these projects will contribute to improvement in the quality of the Ballyholme Bathing Water.

However, the quality of bathing water can be impacted by many factors outside the control of NI Water e.g. urban run-off, agricultural run-off and river inputs. The weather can have a significant impact on quality with high rainfall leading to increased run-off and operation of Combined Sewer Overflows (CSOs). The unusually heavy rainfall events of the past three years have had a significant detrimental impact on bathing water quality.

Pollution Incidents

The legacy of under-investment in waste water installations and infrastructure has proved a major contributory factor in achieving the pollution incidents KPI over the last 3 years. For 2007, the target was originally set as a percentage reduction on the average number of incidents over the period from 2004 to 2006. Taking into account annual fluctuations in pollution incident numbers, that NI Water was subject to the full NIEA regulatory regime after losing crown immunity on 1 April 2007 and greater customer awareness, experience has demonstrated that this methodology was not appropriate.

The 2009 KPI was set at 56 medium and high severity incidents, the same number as in 2008 but a reduction on the number recorded in 2007 and the target was achieved. There was only one fish kill attributed to NI Water and this was associated with the sole high severity incident. The upgrading of WWTWs through delivery of the Capital Works Programme and implementation of the Drainage Areas Plans, will contribute to a future reduction in the number of pollution incidents.

Around 70% of pollution incidents can be attributed to the sewerage system and to assist in reducing these numbers, NI Water has instigated a programme to install monitors at some 290 high risk CSOs. The monitors will allow earlier interventions and will assist in reducing the frequency and severity of pollution incidents from CSOs. However the majority of pollution incidents in the sewerage system are due to blockages caused by the disposal of inappropriate items which systems are not designed to deal with e.g. nappies and sanitary items. While NI Water has a responsibility for the sewerage system, everyone in Northern Ireland can help reduce these incidents and hence pollution, by ensuring inappropriate materials are not disposed of into the system.

NI Water is improving its overall response time to reported incidents and ensuring appropriate action is taken. In February 2010, NI Water provided another training programme to increase staff awareness of all the issues associated with pollution incidents to further ensure timely and appropriate action is taken.

Capital Works Programme

Investment in Northern Ireland's water and sewerage infrastructure is essential in order both to meet key environmental standards and to deliver high quality services to customers. Some £210m of capital engineering projects were delivered during 2009/10. This included the continuation of projects previously started along with the commencement of new projects. 36% of this capital programme was targeted at water projects while 64% was targeted at wastewater projects. 44 projects were commenced at high priority WWTWs. This will continue the on-going work to ensure compliance with the appropriate European Directives and meet the regulatory discharge consent standards. Improvements to the water treatment works at Altnahinch and Seagahan were also completed in 2009/10. Improvements were made to the watermain infrastructure in a number of areas throughout Northern Ireland. Work continued on improving the wastewater network at various locations including Londonderry and Carrickfergus. The Belfast Sewers Project was completed in 2009/10.

£150m of capital projects are scheduled for delivery during 2010/11. This includes the continuation of projects previously started along with the commencement of new projects. Work will continue to ensure compliance with the appropriate European Community Directives and meet the regulatory discharge consent standards. It is planned to target improvements to the watermain infrastructure in a number of areas throughout Northern Ireland. Some 10 zones are programmed for work. This will be the start of a new three year programme of work to reline or replace some 900km of watermains throughout Northern Ireland. Improvements to the sewer network will be undertaken at a number of locations. Work will continue on improving the sewer network in Londonderry, North Down and East Belfast.

Technology and Innovation Programme

NI Water is committed to investment in innovation through new systems and technology that provide benefits in terms of improving service performance or reducing operational costs, whilst ensuring the resilience and security of essential control and monitoring networks. Over the 2009/10 financial period NI Water has invested £6.1 millions on 33 projects through the Technology (Innovation) Programme. The projects have included the installation of telemetry (remote monitoring) at an additional 80 WWTWs and 270 combined sewer overflows and the upgrading of the central telemetry control system capacity and capability. Other projects have included the investigation of the potential development of wind energy generation on a small number of sites within the Company's estate and the upgrading of instrumentation used to monitor and control our works.

Operational Effectiveness

NI Water has continued to enhance its service to customers and improve its infrastructure management through good operational management and investment in technology. This was achieved through sustained attention to works, particularly those operating beyond their designed capacity, and by carrying out a number of activities throughout 2009/10.

Asset Management

NI Water has prepared the third Northern Ireland Asset Management Plan ("NIAMP3") defining its capital investment requirements over the next 3 year period. NIAMP3 has formed the central core for the Company's capital investment needs in the first regulated Business Plan submission known as PC10. NI Water is continuing to work through the Regulatory process to develop a programme for delivery of the UR's Final Determination. During the reporting period NI Water has implemented a number of asset management systems, tools and procedures to drive more efficient investment. The Company has completed a Corporate Asset Register (CAR) and is installing tools to make management information, particularly on asset performance, widely available from the CAR. The Company has built and deployed the Strategic Capital Investment Manager and Unit Cost Database tools to prioritise, optimise and cost capital investment and are populating the tools with NI Water specific data. Gaps have been identified in the asset data and the Company is competitively tendering contracts to fill gaps in asset data. The asset management processes have been evolved to consolidate the Company's capital investment processes through a major transformation exercise through the Tactical/Strategic Asset Management Review.

Public Private Partnerships

Project Alpha – Drinking Water Services Contract

The Alpha Contract has consistently provided statutorily compliant drinking water services, at an average rate of almost 250 million litres per day, throughout the year. An unrepresentative sample result in April 2009 required a pre-cautionary boil notice to all customers in the Greater Belfast area. Through a contract change NI Water has brought back in-house a proportion of the contracted laboratory sampling arrangements to enhance confidence in water quality sampling.

Project Omega – Wastewater Treatment and Sludge Disposal

All the Omega Wastewater Treatment upgrades are complete and now in operation. Statutory compliance has been maintained across the year on discharges from all the Omega sites. The Sludge Disposal Service, for all of NI Water's wastewater treatment sludges, has been brought into operation in March 2010, completing the investment stage of the Omega contract.

Kinnegar Wastewater Treatment

Kinnegar has achieved another year of statutorily compliant wastewater treatment operations.

BUSINESS IMPROVEMENT PROGRAMME...

The One Programme moved to a controlled close at the end of March 2010. Overall, the programme has delivered benefits in direct savings and avoided costs, of c£127m for an investment of £60m during the SBP period.

In total 135 projects/programmes will be delivered -

- Cash Hub - 22
- Customer Hub - 41
- Compliance Hub - 53
- People Hub - 19

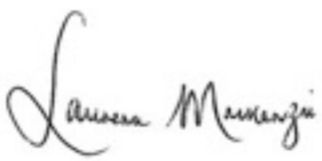
16 projects will run into 2010/11 and will be managed to completion by the Programme Management Office as part of One Programme closure.

The programme has been a key driver in the delivery of the opex and capex efficiencies required by our external stakeholders. More importantly, it has also built capability to enable the company to become a standalone and sustainable utility, compliant with environmental, economic and legislative requirements. Examples of the benefits delivered by the programme include: -

- improved customer complaint processes via a dedicated 'Triage Team' and an MLA telephone hotline;
- reducing 3 stores to 1 and rationalising 17 depots into 6 regional hubs;
- reducing c500 posts across all functions of the business;
- delivering substantial capex efficiency savings [£80.4m] via Capital Works Programme;
- upgrading drinking water quality monitors, reducing costs and improving compliance;
- installation of c300 Combined Storm Overflow Monitors to reduce pollution incidents;
- implementing a Human Resource function, Payroll Systems, Mirror-Image Pension schemes and a new staff Performance Management System;
- submission of our first price control Business Plan [PC10 BP] to the UR;
- implementation of an improved Procurement and Contract Management system;
- developing an Asset Management Model, Asset Registers and Asset Management processes;
- implementing a Mobile Work Management system and automating the process for scheduling customer faults so that urgent jobs are prioritised;
- developing a centralised '24/7' Operational Control Centre;
- creating a data warehouse and the integration of computer systems and upgrading of technology solutions to streamline the administration and regulatory functions; and
- commencing a Data Quality Programme to fulfil 'legal undertakings' given to the UR [this activity will continue into PC10].

Of course there is more work to be done to improve the Company's customer service, environmental compliance and importantly efficiency, but NI Water is confident in its own ability to deliver further business changes.

The Company would like to thank all of those who have contributed to the One Programme and ask for your continued support for the improvement drive ahead during the PC10 period.



Laurence MacKenzie
Chief Executive
29 June 2010

CORPORATE RESPONSIBILITY

NI Water recognises its role as an essential service provider, supporting communities, safeguarding the environment and contributing to the economy in its daily operations. It also embraces its duty to make sure that the Company's activities and practices are sustainable, transparent and ethical.

2009/10 has proved a successful year in keeping NI Water's internal and external stakeholders fully informed of progress made on infrastructure developments, organisational changes and supply issues.

In early 2010 NI Water established a formal Corporate Responsibility Committee, highlighting its commitment towards setting challenging targets to achieve goals of continuous improvement in economic, community and environmental performance. NI Water hopes creating this Committee, which gives a greater focus on performance reporting, will drive the company towards further innovation and efficiency.

This Committee will maintain a strategic overview of all aspects of the Company's CR policy, with a focus on key CR issues including climate change, sustainability and the environment, the communities in which the Company operates, the stakeholders with whom it works, employees and their welfare and, finally, NI Water's corporate reputation both internally and externally.

NI Water defines its main Corporate Responsibility themes and priorities as Customer, Environment, People, Reputation and Competitiveness.

2009/10 Highlights

Figure 6 CR Performance Highlights from 2009/2010

Customer	Environment	Reputation	People	Competitiveness
Increased customer satisfaction survey score to 92%.	Achieved 77.2% in NI Environmental Benchmarking Survey 2009 (survey average 67%).	Reduced risks by improving governance controls.	27% reduction in the accident rate and a ROSPA Silver Award for Health & Safety.	Delivered against Efficiencies set in 2007-10 Strategic Business Plan.
Developed a Code of Practice with Consumer Council on Priority Services.	Water quality at highest level since the company began.	Created comprehensive Business Continuity Plans, protecting supply in an emergency.	Increased staff engagement by 8%.	Introduced government guidelines to pay specified suppliers within 10 days of receipt of invoice.
Created new Data processes to improve customer information.	Visited approximately 11,000 school children & community groups to educate on water efficiency and the environment.	Maintain strong partnerships with all our key stakeholder groups.	Internal Communications methods won 2 CIPR Excellence Awards.	Reviewed procurement processes. Implemented & trained employees on new contract management systems.

Customer

NI Water continues to commit to safeguarding services to its most vulnerable customers, establishing clear Codes of Practice and a Customer Charter with the Consumer Council. NI Water continues to provide a high standard of service and recognises the need to deliver affordable quality and play its part in improving the health and environment of the community. In 2009/10 the company rose 16 places in the customer satisfaction survey, achieving a score of 92%.

A number of campaigns have been undertaken in 2009/10 to offer help and guidance to customers including a Priority Services register campaign to make special arrangements for those customers who require extra help and a Bogus Callers campaign working directly with the Police Service of Northern Ireland to protect customers in their homes from criminals claiming to be NI Water workers.

NI Water is also committed to a data quality improvement programme as the information held can affect the experience of individual customers. NI Water employees have been trained in a number of new reporting tools, with the aim to create a data-conscious culture. New procedures and accountability will focus on making improvements in operational and customer data. From understanding where an asset is, so it can be repaired, to having accurate information to allow efficient billing of non-domestic customers – correct data is essential and will remain a corporate priority over the coming months and years.

Environment

NI Water takes its environmental responsibilities seriously and is certified to ISO 14001 – the Environmental Management System standard. Maintaining the security and quality of the water supply is fundamental to the service provided to customers. Water quality remains at its highest level since the Company began and the Company has a clear environmental policy that both protects and ensures regulatory and legislative requirements. NI Water is continuing to focus on the provision of wastewater services, planning and investing to ensure services meet the current and future needs of domestic and business customers. The Company prioritises protecting the environment and has reduced the number of pollution incidents in 2009 as well as significantly increasing the number of customers served by a compliant wastewater treatment works.

A number of policies and procedures have been established to focus the business on waste management and recycling, transport costs and energy efficiency. NI Water continues to train all employees on their comprehensive Environmental Management System. Externally, NI Water continues with its significant education programme, educating schools and community organisations on water efficiency, water for health and environmental protection and conservation. In 2009/10 NI Water visited over 180 of these groups, reaching approximately 11,000 individuals and attending a number of external events.

In 2009/10 NI Water collated information on environmental practices, procedures and policies and entered the Northern Ireland Environmental Benchmarking Survey for the first time. This independent survey targets 250 of Northern Ireland's largest public and private organisations and measures how well NI Water is managing environmental impacts, ranking the company against its peers. The results highlighted the positive contribution that NI Water is currently making – achieving a survey result of 77%. This is in comparison to a survey average in NI of 67% and a utilities sector average of 72%.

People

NI Water recognises people as its main asset, and the Company has made significant steps in developing a significant Health and Safety awareness culture amongst its employees. In 2009/10 a 27% reduction in accidents (since 2007) was observed along with an external accolade of a ROSPA Silver Award for Health and Safety.

The Health and Safety work sits alongside the robust HR policies and procedures which protect the health, wellbeing and development of employees. NI Water continues to work with its Trade Union colleagues, bringing about changes to benefit all employees. Employees are supported to realise their potential, with development needs recognised and addressed via a structured Performance Management System. This year NI Water also continued to support family-friendly, flexible working arrangements including the introduction of a childcare voucher scheme.

NI Water also realises the essential need to create open and honest dialogue with employees. In 2009/10 a number of internal communications methods remained critical to informing the business, including open forum sessions with senior managers, staff magazines & publications, team & telephone briefings, a comprehensive intranet and employee surveys. The open forum session activity and the telephone briefing service were both awarded CIPR Excellence Awards 2009 (Gold & Silver respectively), along with a commendation for the staff magazine 'Waterline'.

As NI Water works actively towards being an 'Employer of Choice', the 2009 employee survey results were encouraging, highlighting an improvement of 8% in employee engagement scores.

Reputation

NI Water recognises the fundamental importance of good relationships with our customers and principal stakeholders. In order to deliver the infrastructure and service improvements that customers expect, strong relationships based on openness, trust and respect are essential.

Principal stakeholders include the Minister for Regional Development, DRD (Department, Shareholder and Water Policy Unit); the Utility Regulator (UR); the Consumer Council for Northern Ireland (CCNI); the Environment Agency and Drinking Water Inspectorate; the Northern Ireland Assembly and the Regional Development Committee.

NI Water also seeks to continually improve communication channels with the political community via the Elected Representative Line and attendance at party political conferences. In addition, the Company has been pro-actively communicating with elected representatives on key constituency matters and major incidents, such as the winter freeze 2009/10. This approach has been taken to ensure elected representatives receive critical up-to-date and local information on behalf of their constituents, NI Water's customers.

In 2009/10 the Company has made further improvements in establishing Corporate Governance principles and Business Continuity plans to protect the delivery of service, implement controls and manage risks as they arise.

Competitiveness

NI Water wishes to maintain an ethical and accountable approach to the business, ensuring a stable financial profile, with equitable and transparent procurement practices.

A significant number of efficiencies have been achieved, delivering against the £53.8m Opex efficiency target and achieving £89m Capex efficiency savings over the SBP period. These savings will assist in holding customer bills at an affordable level. Further financial systems and procedures have been introduced in 2009/10 including a 'purchase-to-pay' arrangement which ensures specified suppliers are paid within 10 days of receipt of invoice.

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

2009/10 has proved a difficult year particularly in relation to identifying past procurement issues, controls and governance arrangements. As mentioned, improved Corporate Governance procedures and Business Continuity plans are now in place along with an Internal Audit team who will rigourously monitor activity to ensure procedures are followed. The business has moved towards a business continuity and governance culture which will increase customer confidence in NI Water.

The PC10 period (2010/13) poses significant and increasing challenges for the Company. At the time of writing discussions between the Company, the UR and DRD are continuing to finalise the Company's funding package for the period. These discussions are being conducted against a background of economic uncertainty and the knowledge that the Company must deliver significant efficiencies in both capital and operational expenditure, while maintaining or enhancing services to the customer.

DIRECTORS' REPORT

The Directors present their report, together with the audited financial statements for the year ended 31 March 2010.

Principal activities

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

Future developments

The Directors are not aware at the date of this report of any likely major changes to the Company's activities in the next year.

Business review

The Company is required to set out in this report a fair review of the business of the Company during the financial year ended 31 March 2010, the position of the Company at the end of the financial year and a description of the principal risks and uncertainties facing the Company. The information that fulfils these requirements can be found in the following sections of the Operating and Financial Review:

- review of results (refer to pages 1 to 6);
- operational performance (refer to pages 7 to 24);
- financial performance (refer to pages 11 to 13);
- KPIs (refer to pages 7 to 24 and pages 106 to 109);
- corporate responsibility (refer to pages 22 to 24);
- risks and uncertainties (refer to pages 33 to 34); and
- financial risk management objectives and policies (refer to pages 11 to 13 and pages 33 to 34).

Dividends and reserves

The Company's dividend policy is to provide a return to the Shareholder based on 5.1% of the regulatory capital value less net debt. It is anticipated that a final dividend of approximately £36m for the year ended 31 March 2010 (31 March 2009: £35m) will be approved by the Shareholder upon the recommendation of the Board in July 2010 and paid in August 2010 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2010.

Directors and Officers

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

- Chris Mellor, Non Executive Chairman (until 11 March 2010) and Acting Chief Executive (until 28 July 2009).
- John Ballard (CBE), Non Executive Director (until 11 March 2010).
- Ruth Thompson (OBE), Non Executive Director (until 11 March 2010).
- Declan Gormley, Non Executive Director (until 11 March 2010).
- Donald Price, Non Executive Director. Donald is a former Chief Executive Officer (CEO) and Board Director of the Northern Bank, where he is currently a Non Executive Director. A former Managing Director of NIR and the Belfast Telegraph, he is a Fellow of the Institute of Bankers and a Non Executive Director of Northern Ireland Tourist Board.
- Laurence MacKenzie*, Chief Executive (appointed 28 July 2009). Laurence joined the Company in July 2009 as Chief Executive having previously been Managing Director of NIE plc and a Board member of the Viridian Group.
- Ronan Larkin*, Director of Finance and Economic Regulation. Ronan joined Water Service in September 2005. He has previously been responsible for commercial and financial roles in organisations in the UK and Ireland. Ronan is responsible for the financial direction and economic regulation of the organisation and the relationship with the UR.
- George Butler*, Director of Asset Management (Appointed Executive Director 25 November 2008). George joined Water Service in April 2005 after over 20 years as a consultant, investor and regulator in the water sector, most recently with the economic regulator for England and Wales, Ofwat. George is responsible for Scientific Services, Asset Management and for dealing with the environmental regulator.
- Mark Ellesmere, General Counsel and Company Secretary. Mark joined Water Service in June 2006 having previously worked as a Solicitor in private practice and in-house.

- Sara Venning*, Director of Customer Service Delivery. Sara was appointed as an Executive Director on 21 May 2010 having previously been a Senior Manager with NIE plc.

* Executive Director

Directors' remuneration and annual bonus plan

Remuneration for Executive Directors comprises base salary, a discretionary annual bonus plan and pension entitlements. No bonuses were paid to Executive Directors for 2009/10 performance. 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 40 to 42 and in note 5 to the financial statements.

Directors' and Officers' indemnities

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

Policy on the payment of creditors

The Company's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative agreement, the policy is to make payment not more than 30 days after receipt of a valid invoice. The ratio, expressed in days, between the amount invoiced to the Company by its suppliers during the year and the amount owed to its trade creditors at 31 March 2010, was 32.6 days (2008: 33.2 days). The Company adopted the public sector supplier payment policy of 10 days going forward in accordance with the Northern Ireland Executive's policy. As at 31 March 2010 this stood at 16.5 days.

Political and charitable contributions

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

Research and Development

NI Water invested £0.5m on research and development in 2009/10 (2008/09: £0.5m) (refer to note 1(j) to the financial statements for accounting treatment). NI Water, together with other UK Water Companies, employ research bodies such as the United Kingdom Water Industry Research Limited (UKWIR) and the Water Research Centre (WRC) to provide a collaborative programme of research tailored to suit the needs of the UK water industry. NI Water also employs research bodies directly to address specific business needs as required. NI Water also collaborates with and supports UK university research projects and is a member of Queen's University Environmental Science and Technology Research Centre (QUESTOR), an international environmental research organisation based at Queen's University Belfast.

Employees

It is 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, being an Irish Traveller); 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 2010, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the Company in order that the purposes of a special administration order could be achieved if such an order were made.

Regulation - ‘cross directorships’

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

Disclosure of information to auditors

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

Auditor

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

By order of the Board

Mark Ellesmere
Company Secretary
29 June 2010

CORPORATE GOVERNANCE

Compliance statement

This report describes the key features of the Company's governance structure and how NI Water has applied the principles of good corporate governance, as set out in the Combined Code on Corporate Governance ("the Combined Code"). Not all of the provisions of the Combined Code apply to NI Water as a Government owned company. Apart from the matter detailed below, the Company has complied throughout the financial year ended 31 March 2010 with the relevant Combined Code provisions.

NI Water is also categorised as a Non Departmental Public Body (NDPB) sponsored by DRD, which is the Company's sole shareholder. The governance arrangements between NI Water and DRD are established through the Shareholder and Governance relationship document and the governance letters issued by DRD. These comply with the best practice standards of regularity and propriety in the use of Public Funds.

Explanation of non compliance

The approval of the appointment of Chair of the Board, Executive and Non Executive Directors is the duty of the Minister for Regional Development.

A. 1 April 2009 – 27 July 2009:
From 1 April 2009 the Board consisted of the Chair, who was also the Acting Chief Executive, four Non Executive Directors and two Executive Directors. The four Non Executive Directors to the NI Water Board during this period were Ruth Thompson, John Ballard, Declan Gormley and Donald Price. The Executive Directors to the Board of NI Water were George Butler, Director of Asset Management, and Ronan Larkin, Director of Finance and Regulation. This brought the number of Executive and Non Executive Directors to the Board as three and four respectively. The acting Director of Operations David Dangerfield attended the Board meetings as an observer up until he left the Company in October 2009.

Chris Mellor continued as the Acting Chief Executive until Laurence MacKenzie was appointed as the Chief Executive on 28 July 2009. Thereafter he remained as the Non Executive Chairman of the Board. For this period the Company did not comply with section A.2.1 of the Code which states that the roles of the Chairman and Chief Executive should not be exercised by the same individual.

B. 28 July 2009 - 10 March 2010
For this period the Company was compliant with the Combined Code 2008.

C. 11 March 2010 – 31 March 2010
On 11 March 2010 the Minister removed the Chairman, Chris Mellor and three Non-Executive Directors, namely Ruth Thompson, John Ballard and Declan Gormley. This brings the number of Executive and Non Executive Directors to the Board as three and one respectively. The Minister is in the process of appointing a new Chairman for the Board and Non Executive Directors such as to be compliant with the Combined Code. For this period the Company did not comply with the Combined Code 2008 in terms of not having the required number of Non Executive Directors, a Chairman and a Senior Independent Non Executive Director. The Company is currently in the process of appointing new Non Executive Directors to the Board.

The Board

Board structure

On 28 July 2009 Laurence MacKenzie took up the role of Chief Executive, while Chris Mellor remained as Chairman when he stepped down from the Acting Chief Executive role. John Ballard was the senior independent Non Executive Director until his dismissal. Donald Price is the only remaining Non Executive Director and is also the Chair of the Audit Committee.

The Board has reviewed the status of the Non Executive Directors over the year and considered them to be independent in character and judgement and within the definition of this term in the Combined Code. The Non Executive Directors should contribute external expertise and experience in areas of importance to the Company such as corporate governance, financial management, corporate, social and environmental strategy, systems of internal control and risk management. The Non Executive Directors also provide independent challenge and rigour to the Board's deliberations.

The Chairman and remaining Non Executive Directors to the NI Water Board were in office until 11 March 2010, at which date the Minister removed the Chair and three Non Executive Directors following the issue of the procurement governance report by the Independent Review Team (IRT).

The role of the Non Executive Director in NI Water is somewhat reduced by the imbalance in representation on the NI Water Board, with only one Non Executive Director to three Executive Directors remaining. The Board recognises that the appointment of a new Chairman and replacement of the dismissed Non Executive Directors that will take place in the forthcoming year will rebalance the Board and will ensure that the necessary skills, experience and qualities to lead the Company in the future will be present. The Board has ultimate responsibility for ensuring that the Company is properly managed and achieves its strategic objectives.

Directors and their interests

The names and biographies of the Directors currently serving on the board are set out on pages 25 to 26. Details of the Directors' employment agreements and interests are shown in the Directors' remuneration report.

Operation of the Board

The Board has ultimate responsibility for ensuring that the Company is properly managed and achieves its strategic objectives. It has an agreed schedule of matters reserved for Board decision, which includes setting long term strategic and business objectives, overseeing the Company's internal control systems and risk management and ensuring that appropriate resources are in place to enable the Company to meet its objectives. The Board meets at least 11 times in each calendar year and convenes additional meetings as and when required.

Details of the number of Board meetings, Board Sub-Committee meetings and the attendance of the Directors at those meetings are shown in ***figure 7***. In the absence of the Chairman from the Board, the Chief Executive has, in the interim, 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 Non Executive Directors, led by the Senior Independent Non Executive Director, also have an annual meeting where there is an opportunity for them to meet without the Chairman to appraise the Chairman's performance. The Chief Executive is responsible for the executive management of all of the Company's business and for implementing Board strategy and policy within approved budgets and time-scales. The Chief Executive is supported by the Leadership Team. Membership of the Leadership Team is shown below and comprises the Executive Directors and Executives responsible for key central and operational functions.

Laurence Mackenzie* - Chief Executive (appointed 28 July 2009)**;

Ronan Larkin* - Director of Finance and Economic Regulation**;

George Butler* - Director of Asset Management**;

Sara Venning* - Director of Customer Service Delivery (appointed 21 May 2010)**;

Mark Ellesmere – General Counsel & Company Secretary**;

Trevor Haslett – Director of Engineering Procurement**;

Pat McParland – Director of Corporate Affairs**;

Pauline Shepherd – Director of Human Resources;

Allan Jones - Acting Chief Information Officer (until 31 March 2010);

Seamus Doyle – Chief Information Officer (appointed 1 April 2010);

Alistair Jinks – Head of Business Improvement;

Nicola Brennan - Head of Internal Audit.

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.

* Executive Directors
** Executive Committee member

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, Risk and Reputation Committee (replaced by the Corporate Responsibility Committee in September 2009), Remuneration and Nomination Committee and the Asset Investment Committee (the "Principal Committees") comply with the provisions of the Combined Code and may be obtained on written request from the Company Secretary at the address given on the back cover of this report. Each of the Principal Committee's has reviewed their effectiveness, following which Terms of Reference actions were been identified and reported to the Board.

When the Chairman of the Board and three Non Executive Directors were removed from the Board in March 2010 the Board continued to meet to conduct Non Executive Sub-Committees meetings (such as the Audit Committee) of the Board in order to perform its duties. The Minister for Regional Development, whose duty it is to appoint the Chairman and Non Executive Directors to the Board, is in the process of making interim appointments in order to fill the position of the Chairman and meet the required balance in the number of Executive and Non Executive Board Directors.

The membership of the Principal Committees are set out below:

Audit Committee

- John Ballard** (Member until 11 March 2010); and
- Donald Price** (Chair).

Nomination and Remuneration Committee

- Declan Gormley**(Chair until 11 March 2010);
- Ruth Thompson** (Member until 11 March 2010); and
- John Ballard** (Member until 11 March 2010).

Asset Investment Committee

- John Ballard** (Chair until 11 March 2010);
- Chris Mellor** (Member until 11 March 2010); and
- Declan Gormley** (Member until 11 March 2010).

Risk and Reputation Committee (until September 2009)

- Ruth Thompson**(Chair until 11 March 2010);
- Donald Price**(Member); and
- Declan Gormley**(Member until 11 March 2010).

Corporate Responsibility Committee (from September 2009)

- Ruth Thompson**(Chair until 11 March 2010);
- Donald Price**(Member); and
- Declan Gormley**(Member until 11 March 2010).

Audit Committee

Only Independent Non Executive Directors may serve on the Committee. The Committee meets with the Company's external auditor ("the Auditor") at least four times a year. By invitation of the Committee other individuals such as the Chairman (when there is a replacement), Company Secretary, Director of Finance and Regulation, Head of Corporate Governance and Head of Internal Audit will normally be in attendance for all or part of those meetings. From March 2010 onwards, Gary Fair, Director of Shareholder Unit, is also invited to attend Audit Committee meetings. The Chair of the Audit Committee has recent and relevant financial experience. The Committee and the Auditor also hold separate meetings without the attendance of executive management. In their assessment of the independence of the Auditor, the Committee receives annually in writing details of relationships between the Auditor and the Company, which may bear on the Auditor's independence and receives confirmation that they are independent of the Company as required by International Standard on Auditing (UK and Ireland) 260. The Audit Committee annually approves the level of the Auditor's fees in respect of the audit of the financial statements and regulatory accounts of the Company, and considers the adequacy of the Auditor's proposed audit plan and approves the letter of engagement. A formal policy, which includes fee limits, has been adopted for non audit services. The Audit Committee has primary responsibility for making a recommendation to the Board on the appointment, reappointment and removal of the Auditor. The Audit Committee reviews the policies for the non-audit services by the external auditor and the framework for the pre-approval of the provision of audit and non-audit services by the external auditor.

The Head of Internal Audit meets quarterly with the Chairman of the Audit Committee without management to discuss the Company's overall control environment. The Head of Internal Audit reports to the Chief Executive as Accounting Officer and to the Chair of the Audit Committee. The Audit Committee assesses the safeguards in place to protect the independence of the Internal Audit Function.

The Audit Committee has, throughout the year, monitored the integrity of the financial statements together with the Company's formal announcements relating to its financial performance, paying particular attention to significant reporting judgments contained therein. The effectiveness of NI Water's internal control and risk management system is reviewed by the Audit Committee. The Audit Committee oversees the Business Continuity Plan; reviews the effectiveness of NI Water's Whistleblowing policy; and reviews the internal controls for the Statement of Internal Control (SIC). The Audit Committee has reviewed risk management and the effectiveness of the system of internal control during the year ended 31 March 2010 and has reported to the Board on the outcome of this review. The effectiveness of the Company's internal audit function has been reviewed by the Audit Committee. The Audit Committee reviews fraud, theft and irregularities and also reports of whistleblowing cases that deal with allegations from employees and outsiders relating to breaches of the Company's Code of Business Ethics. The Committee evaluates the effectiveness of its own performance on an annual basis and report to the Board on any areas for the Board's consideration.

Nomination and Remuneration Committee

Only Independent Non Executive Directors may serve on the Committee. The Chief Executive, Company Secretary, HR Executive and other external advisers also attend the Nomination and Remuneration Committee meetings at the invitation of the Committee Chair. The Committee normally meets at least four times a year. The Nomination and Remuneration Committee determines, on behalf of the Board, the NI Water policy on the remuneration of Executive Directors and Executives. Further information on the activities of the Nomination and Remuneration Committee is given in the Directors' Remuneration Report on pages 40 to 42. The Nomination and Remuneration Committee has responsibility for considering the size, structure and composition of the Board of the Company, retirements and appointments of additional and replacement Directors, succession planning and making recommendations so as to maintain an appropriate balance of skills and experience on the Board.

Asset Investment Committee

The Asset Investment Committee normally meets four times a year. The Committee was chaired by John Ballard, Independent Non Executive Director. The Committee makes recommendations to the Board concerning:

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

Risk and Reputation Committee (until September 2009)

The Risk and Reputation Committee normally meets four times a year. The Committee was chaired by Ruth Thompson, Independent Non Executive Director. The Committee's main responsibility was to ensure appropriate strategies and controls were in place to improve performance in relation to risk management for the non-financial risks which include customer care, reputation management, public health and safety, environmental performance and sustainable development, diversity and equality, the development of occupational health and well being of employees, community investment and security.

Corporate Responsibility Committee (from September 2009 onwards)

The Risk and Reputation Committee was replaced by the Corporate Responsibility Committee following a review by the Board. As part of this change some of the functions of the Risk and Reputation Committee were directly transferred to the Corporate Responsibility Committee, whereas other functions were undertaken in more appropriate forums such as the Audit Committee. The Corporate Responsibility Committee is a sub-committee of the Board. Up until her removal in March 2010, Ruth Thompson, Non Executive Director was the Chair. The main responsibilities of the Committee are to assess the work of the Company in promoting Health and Safety; oversee the Company's overarching Corporate Responsibility Strategy; to promote the importance of corporate reputation; and to propose and agree targets for work within these areas.

Figure 7 - Attendance at Board and Principal Committees' meetings (2009/10)

	Board Meeting	Audit Committee	Corporate Responsibilty Committee	Asset Investment Committee	Nomination & Remuneration Committee
Chris Mellor*	18	5	2	1	-
John Ballard*	17	7	-	6	6
Ruth Thompson*	12	-	2	-	4
Donald Price	16	7	2	-	-
Declan Gormley*	13	-	1	5	6
Ronan Larkin	18	7	-	5	-
George Butler	16	-	-	6	-
Laurence MacKenzie**	16	3	1	5	-
Total	20	7	2	6	6

* Removed on 11 March 2010
** Appointed on 28 July 2009

Meetings

Details of the Board and Board Committees' meetings attended by each Director during the financial year are shown on ***figure 7***.

Directors' interests in contracts

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

Remuneration
The Directors' remuneration report, which includes a statement on the Company's policy on Directors' remuneration, is set out on pages 40 to 42.

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

Performance and effectiveness reviews
During the year the Board, carried out an evaluation of the performance of its committees. Each Director and the Company Secretary answered a questionnaire on his/her perception of the composition, operation and effectiveness of the committees and on the performance of the Chairpersons of the Board and its committees except for the Nomination and Remuneration Committee.

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

Internal control and risk management
The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board reviews the effectiveness of the system of internal control, including financial, operational, compliance and risk management, at least annually in accordance with the requirements of the Combined Code. The system of internal control is reviewed for effectiveness and adequacy. Such systems can only provide reasonable and not absolute assurance against material mis-statement or loss, as they are designed to manage rather than eliminate the risk of failure to achieve business objectives. The Board review key risks on a monthly basis and identify ways in which to enhance the control and audit arrangements in the Company.

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

The Internal Audit Function report on significant control issues to the Audit Committee and provide independent, objective assurance and advice on the control environment, risk management framework and corporate governance. The Board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks faced by the Company, have been in place for the year to 31 March 2010 and up to the date of the approval of the Annual Report. Work continues to review and improve the system of internal controls across the Company. Any control weaknesses identified have action plans to remedy them and those plans are monitored by the Audit Committee and the executive management.

Principal Risks 2009/10
The Company is exposed to a number of commercial risks and uncertainties which could have a material impact on its business, financial condition, operations and reputation. There is a risk management framework in place that will help manage these risks if they were to arise, such that the impact on the Company would be reduced to an acceptable level.

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

2. Risk of inappropriate regulatory settlement which could affect the delivery of the targets within the agreed funding for the PC10 period from April 2010 to March 2013.

The Company is continuing to work closely with the Economic Regulator and Shareholder to agree PC10 funding as this could affect NI Water's ability to operate its business. This risk could be further impacted should the PC10 review go to the Competition Commission.

3. The failure of our assets or our inability to carry out critical operations could have a significant impact on our financial position requiring continuously high levels of capital investment.

NI Water inherited an aged and under-funded asset base upon transfer in April 2007. There is a risk that the Company may suffer a major failure in its assets which could arise from an inability to deliver the capital investment programme for its businesses or to maintain the health of its systems. This could cause a significant interruption to the supply of drinking water and management of wastewater services.

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

The Company is subject to certain risks which are largely outside its control, such as energy costs, the impact of climate change, weather or unlawful acts by third parties, including pollution, sabotage or other international 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. There is a strategy in place that will help NI Water achieve these savings and increase the efficiencies of the Company.

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

NI Water works closely with its Environmental Regulators to implement new laws and regulations. Amongst other things, these establish standards for drinking water and discharges into the environment which affect its operations. However, these laws and their enforcement have tended to become more stringent over time, both in relation to their requirements and in the levels of proof required to demonstrate compliance. While NI Water is of the belief that it has taken account of the future capital and operating expenditure necessary to achieve and maintain compliance with current changes in laws and regulations, it is possible that new or stricter standards could be imposed or current interpretation of existing legislation be amended. This would increase the Company's operating costs or capital expenditure by requiring changes and modifications to its operations in order to comply with any new environmental laws and regulations.

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

NI Water is continually making improvements in its systems and controls to capture information for reporting purposes. This includes working with stakeholders and ongoing work within the Business Improvement Programme which will improve the accuracy and speed of information available for reporting. There is also significant improvement in resolving the non-domestic data and billing issues through the undertakings provided to the UR agreed under the Licence.

Statement of Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Northern Ireland Water Limited's (NI Water's) policies, aims and objectives. I have an obligation to safe-guard the public funds for which I am responsible, in accordance with the responsibilities assigned to me in the 'Shareholder and Governance Relationship' established between NI Water and Department for Regional Development (DRD).

NI Water is a Government Owned Company (GoCo) and complies with the Combined Code of Corporate Governance applicable to its GoCo status (where NI Water does not comply it explains this as required by the Combined Code of Corporate Governance). It is also categorised as a Non-Departmental Public Body (NDPB) sponsored by DRD. The governance arrangements between NI Water and DRD are established through governance letters issued by DRD. These comply with the best practice standards of regularity and propriety in the use of Public Funds.

DRD approves NI Water's Corporate and Business Plan and regularly reviews the Company's performance against its targets.

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 policies, aims and objectives. The system of internal control also considers the impact of the risks crystalising 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 2010 and up to the date of approval of the Annual Report and Accounts. It complies with Department of Finance & Personnel guidance, where appropriate.

Capacity to handle risk

NI Water's Risk Management Policy is updated on an annual basis and clearly states the roles and responsibility of Board, Committees of Board and the Executive Committee. The roles and responsibilities of Directors and employees are clearly. There is a transparent chain of accountability from the Accounting Officer to all staff. The Policy provides guidance on how to implement risk assessments and how to manage risk to an acceptable level as determined by the Board.

There is an ongoing process for identifying, evaluating and managing strategic risks across the business. The use of risk management is embedded in wider management processes. Risk Registers, have been developed for each significant area of the business, including major projects. These Risk Registers describe how risks are managed.

NI Water has an established Audit Committee, a sub-committee of the Board. The Audit Committee reviews reports from management and from the Company's internal and external auditors. It informs the Board about the robustness of the risk management system by providing quarterly updates in relation to progress. In addition the Board reviews and monitors the management of significant risks on a monthly basis as part of its formal Board Report.

A clear statement of the importance NI Water attributes to risk management, in terms of the achievement of the Company's objectives, has been conveyed to employees through its intranet (Source). Employees understand their responsibilities and are trained in risk management.

Corporate governance and risk assurance is scrutinised by Internal Audit on an annual basis and the findings were included in the Internal Audit Annual Statement to the Audit Committee.

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 organisations and a review of emerging business risks are both used to inform the corporate risks to be managed in the next financial year.

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

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 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 DRD's Permanent Secretary.

The Internal Controls Committee (ICC), chaired by the Director of Finance & Regulation and represented by all functional areas of the business ensures that governance, 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:

- the implementation of Business Continuity Plan and IT Disaster recovery Plan;
- the validation of benefits relating to business improvement projects;
- developments in the revenue assurance process;
- the clarity of Financial Delegations;
- the management of sensitive information and data security;
- refinements to Policies and Procedures;
- management, development of the revised Gateway Review process; and
- the implementation of audit recommendations.

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

NI Water's risk register is managed through software that is updated on an online real time basis. It is accessible to staff 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 synchronized with NI Water's risk matrix, allowing NI Water's risks to be graded and automatically colour coded to facilitate the prioritisation of risk reporting according to NI Water's risk appetite.

NI Water is proactive in developing and implementing policies and procedures to manage data quality. Information risk management and data quality are key aspects of information governance and is an integral part of good management to achieve the obligations of the legally binding data 'Undertakings' provided to the Utility Regulator. These Undertakings represent an obligation to improve systematically the quality of NI Water's data. A range of work plans and process mapping activities through the Business Improvement Programme have been progressed with the aim of improving the quality, reliability and security of information. Over the past year internal audits were conducted on 'Data Quality and Management Information', while reviews on the progress of implementation of previous internal audit recommendations regarding information management were conducted.

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 Internal Audit and the managers within NI Water. These managers have responsibility for the development and maintenance of the internal control framework. I am also informed by comments made by the External Auditors in their management letter and the Reporter's report on the effectiveness of internal controls. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee. A plan to address weaknesses and ensure continuous improvement of the system of internal control is in place.

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

I am also informed by:

- Periodic financial management and reports comparing performance against agreed budgets;
- Risk reports and risk registers;
- Mid-Year and Year-End Assurance Statements by the Executive Management Team;
- Subsidy Assurance Statement;
- Internal Audit reports;
- Fraud, Theft and Whistle-blowing reports;
- Analysis of Key Performance Indicators;
- External Audit reports;
- Reporter's reports;
- Annual statement of assurance to the Audit Committee from the Internal Auditors; and
- Board oversight and governance.

An action plan is developed at the beginning of the year to implement the significant internal audit recommendations and to address significant internal control issues. The Audit Committee monitors the progress in the implementation of the plan. A half-yearly progress report is also presented to the Board and Shareholder Unit to ensure that these actions are completed within agreed timescales. There are also plans in place to improve the integrity of the level of assurance received from Management Assurance Statements.

Taking account of the aforementioned matters, I am satisfied that the internal control framework in operation in NI Water provides reasonable assurance.

Significant internal control issues

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

Significant internal control issues during the year related to the following:

Procurement of goods and services – It became apparent, in October 2009, that there were irregularities in the award of a particular contract let in April 2007 with regards to an assignment of that contract in February 2009. I made the Departmental Accounting Officer aware of these irregularities and agreed to pursue further work aimed at identifying the possibility of other such exceptions. I received an internal audit report in January 2010 which pointed towards further significant issues in procurement governance. The Board and the Departmental Accounting Officer were made aware of these issues. In response the Departmental Accounting Officer and I appointed an independent review of procurement governance in NI Water. The Independent Review Team (IRT) published its report on 25 February (this can be found on the DRD website) and was presented to the DRD Minister in March 2010. In the light of this report he decided to remove the Chairman and three non-Executive Directors from the Company's Board.

Further "deep dive" audit work has been carried out since then and the combined findings reflect non compliance as follows:

Single Tender Actions greater than £250K where DRD approval was not obtained contrary to NI Water's delegation limits; and

Potential OJEU Utilities Contract Regulation breaches.

In 2009/10 expenditure amounting to £5.3 million was identified as not having complied with approval requirements. A further £15.6 million was identified across years 2007/08 and 2008/09.

Annex B provides a detailed schedule of these items.

Additionally, findings relating to internal procurement or internal financial delegation requirements totalling £7.5m over 53 contracts from 2007/08 to 2009/10 were noted across the reviews.

A joint Action Plan has been agreed between NI Water and DRD in response to the findings of the IRT. Progress in implementing the Action Plan is being monitored by the Board and the Department. The following points are included in this action plan:

1. Awareness: Clear procurement procedures and processes have been documented and communicated to all staff, whilst training on both procurement and financial delegations has been rolled out to management;

2. Monitoring and Reporting: Controls relating to compliance with procurement procedures have been put in place. Any potential non-compliance can be detected early and will be reported to management; the Board receive a monthly report both on NI Water's compliance with procurement procedures and financial delegations, and also on progress of the joint action plan;

3. Necessary further remedial action in relation to the irregularities identified during the independent review is being considered by the CEO; and

4. Recruitment of a Procurement Compliance Officer is underway, who once appointed will be responsible for overseeing procurement compliance throughout the Company.

Prior to this, the Chief Executive had already introduced a change in protocol in October 2009 requiring all proposed Single Tender Actions (STA)s to be referred to him for approval.

This will ensure that any STA valued in excess of £250k will be referred to the Department to secure Shareholder consent in line with the delegations.

The other findings within this review included a number of breaches to internal procurement procedures and financial delegations. This included contracts with a value in excess of a £30k threshold for local competitive tendering (per the internal procedures) that were not competitively tendered. These therefore represented inappropriate STAs with lack of relevant internal approval by CEO or Board as required by the Financial Delegation policy.

Data integrity – A systematic programme of work is underway to address data integrity issues and to comply with Undertakings provided to the Utility Regulator.

Other internal control issues during the year are provided below:

Contract management **–** Several issues have been reported by Internal Audit in relation to the management of certain contracts, all require immediate action. Since completion of audit fieldwork, management has taken immediate action to address these points.

Internal and external audit recommendations – Any outstanding recommendations are being managed actively with the importance of meeting deadlines for action points reinforced by me to management. This is a key feature of performance target for 2010/11.

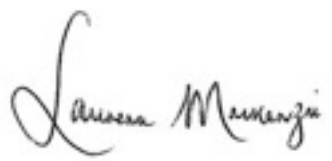
Non-compliance with the Combined Code – Recent changes at Board level are reflected in this Annual Report. Additional controls are being put in place to ensure independence and objectivity at Board level within given constraints.

Reports to the Utility Regulator – NI Water continues to develop systems and controls to ensure that information provided in the Annual Information Return and other deliverables to the Utility Regulator are accurate and subject to robust governance and quality assurance.

IT governance – Improvements have been made in this area with ongoing work to implement recently completed internal audit recommendations and to strengthen the linkage between the respective corporate and IT strategies.

Outsourced billing partner – The Company is pursuing a programme of work to improve the quality of information provided by its outsourced billing partner on measured and unmeasured income.

Reporting of 'DG' standards – Work continues between the Company and the Reporter to ensure greater accuracy and improved reporting following a review, which has assisted in the 2010 Annual Information Return process.



Laurence MacKenzie
Accounting Officer
29 June 2010

DIRECTORS' REMUNERATION REPORT

The Nomination and Remuneration Committee is responsible for the remuneration policy generally within the Company and for approving all aspects of Executive Directors' and Executives' remuneration and for ensuring that the remuneration policy is followed throughout the organisation. The remuneration of Non Executive Directors is determined by the Shareholder. The remuneration of the Chief Executive must be agreed by DRD and DFP.

Nomination and Remuneration Committee

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

- Declan Gormley (Chair until 11 March 2010);
- Ruth Thompson (Member until 11 March 2010); and
- John Ballard (Member until 11 March 2010).

All the members of the Nomination and Remuneration Committee were Non Executive Directors considered to be independent until their removal on 11 March 2010. Refer to page 28 for explanation of non compliance. During the year, the following parties were appointed by the Nomination and Remuneration Committee to provide advice that materially assisted the Nomination and Remuneration Committee:

- PricewaterhouseCoopers (financial advisors);
- Dundas and Wilson (legal advisors);
- Acting Chief Executive (until July 2009 then Chief Executive);
- HR Executive; and
- Company Secretary.

Remuneration Policy

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

• Base salaries

Base salaries were reviewed in 2009 for each Executive Director and Executive, and were determined with regard to the market median for equivalent roles in the UK utility sector. Base salaries are reviewed annually taking into account inflation. Every three years the salaries are reviewed against relevant benchmark information. Fees paid to Executive and Non Executive Directors are shown at **Figures 8** and **9** below.

• Annual Bonus

The Board agreed with the Shareholder an annual bonus scheme for 2009/10 which is within NICS Senior Civil Service guidelines. Payment is based on the achievement of specific Corporate and Personal targets. In conjunction with NICS guidance for Senior Civil Servants no bonus is to be paid to Directors for 2009/10.

Benefits in kind

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

Non Executive Directors' remuneration

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

Directors' Employment Contracts

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

Pension entitlements

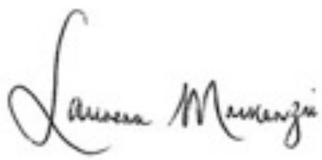
Non Executive Directors do not participate in the Company's pension scheme. All Executive Directors are members of the final salary pension arrangements. Set out on the following pages are details of the pension benefits to which each of the Executive Directors is entitled. The accrued pension entitlement is the amount that the Executive Director would receive if he / she retired at the end of the year. The increase in the accrued entitlement is the difference between the accrued benefit at the year end and that at the previous year end. The pension benefits outlined below are provided through the NI Water defined benefit pension scheme and are a "mirror image" in terms of benefits and contributions of the Principal Civil Service Pension Scheme (NI) as at 01 April 2007. The Executive Directors who transferred to NI Water automatically became members of the new scheme and in January 2009 took a decision whether to transfer their benefits accrued in the Principal Civil Service Pension Scheme (NI) to the NI Water scheme. Pension benefits due to Executive and Non Executive Directors are shown at ***Figures 10*** and ***11*** below. Further details on pensions are provided in note 25 to the financial statements and on page 13.

Transfer Values

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

Increase in transfer value less Directors' contributions

The real increase in CETV shows the increase over the year in the transfer value of the accrued benefits after deducting the Director's personal contributions to the scheme. Further detail on Directors' remuneration is shown in note 5 to the financial statements.



Laurence MacKenzie

Chief Executive
29 June 2010

Figure 8 - Fees paid to Executive Directors

	Salary and Allowances 2009/10 £'000	Benefits in kind 2009/10 (to nearest £100)	Total 2009/10	Total 2008/09
Chris Mellor (Chairman and Acting Chief Executive from 1 June 2008)	91	-	91	159
Katharine Bryan (Chief Executive - resigned 31 May 2008)	-	-	-	280
Laurence MacKenzie (Chief Executive from 28 July 2009)	130	-	130	-
Phil Barker (resigned 31 December 2008)	-	-	-	88
Ronan Larkin	129	-	129	108
George Butler (appointed 25 November 2008)	119	-	119	36

Figure 9 - Fees paid to Non-Executive Directors

	2009/10		2008/09	
	Salary and Allowances £'000	Benefits in kind 2009/10 (to the nearest £100)	Salary and Allowances £'000	Benefits in kind 2008/09 (to the nearest £100)
John Ballard	22	-	24	-
Ruth Thompson	22	-	25	-
Declan Gormley	23	-	12	-
Donald Price	20	-	12	-

Figure 10 - Pension benefits for Executive Directors

	Accrued pension at age 60 as at 31 March 2010 £'000	Related lump sum as at 31 March 2010 £'000	Real increase in pension at age 60 £'000	Real increase in lump sum at age 60 £'000
Laurence MacKenzie	2	-	2	-
Ronan Larkin	8	-	2	-
George Butler (appointed 25 November 2008)	9	-	2	-

Figure 11 - Pension (CETV) benefits for Executive Directors

	CETV at 31 March 2010 £'000	CETV at 31 March 2009 £'000	Real increase in CETV less Director's contribution £'000	Director's contribution £'000
Laurence MacKenzie	36	-	32	4
Ronan Larkin	129	100	25	4
George Butler (appointed 25 November 2008)	161	128	29	4

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK accounting standards (UK Generally Accepted Accounting Practice (GAAP)).

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006 and the relevant provisions of the Water and Sewerage Services (Northern Ireland) Order 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law the Directors are also responsible for preparing a Directors' Report that complies with that law.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHERN IRELAND WATER LIMITED

We have audited the financial statements of Northern Ireland Water Limited for the year ended 31 March 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of movement in shareholder's funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK GAAP).

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 explained more fully in the Directors' Responsibilities Statement set out page 43, the Directors are responsible for preparing the financial statements and for being satisfied that they give a true and fair view.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 financial statements. Further details of the scope of an audit of financial statements are provided on the Auditing Practices Board's website at http://www.apb.org.uk/apb/scope .

Opinion on financial statements

In our opinion the financial statements:

1. give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of its profit for the year then ended;
2. have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
3. have been prepared in accordance with the requirements of the Companies Act 2006 and reflect the relevant provisions of the Water and Sewerage Services (Northern Ireland) Order 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHERN IRELAND WATER LIMITED (CONTINUED)

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, 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.

Arthur O'Brien (Senior Statutory Auditor)   29 June 2010
For and on behalf of KPMG, Statutory Auditor
College Square East
Belfast BT1 6DH

STATUTORY ACCOUNTS

Profit and Loss Account for the year ended 31 March 2010

	Note 29	**2009/10**	2008/09 Restated
		£000	£000
Turnover	*2*	**352,292**	331,572
Total operating costs	*3*	**(262,745)**	(262,786)
Operating profit	*4*	**89,547**	68,786
Interest receivable	*7*	**252**	1,836
Other finance income	*8*	**288**	137
Interest payable and similar charges	*9*	**(38,253)**	(22,092)
Profit on ordinary activities before taxation		**51,834**	48,667
Tax on profit on ordinary activities	*10*	**(14,543)**	(13,762)
Profit for the financial year		**37,291**	34,905

All the results shown derive from continuing activities. There are no material differences between the profits as reported on a historic cost basis for the year and the prior year.

Balance Sheet at 31 March 2010

	Note	2009/10	2009/10	2008/09	2008/09
	29			Restated	Restated
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*12*	**1,621,366**		1,429,109	
Investments	*13*	**106**		106	
			1,621,472		1,429,215
Current assets					
Stocks	*14*	**1,870**		1,901	
Debtors	*15*	**41,548**		30,058	
Cash at bank and in hand		**13,416**		24,314	
		56,834		56,273	
Creditors: amounts falling due within one year	*16*	**(137,905)**		(132,311)	
Net current liabilities			**(81,071)**		(76,038)
Total assets less current liabilities			**1,540,401**		1,353,177
Creditors: amounts falling due after more than one year					
Loans and other borrowings	*17*	**(627,560)**		(457,560)	
Other creditors	*18*	**(121,262)**		(125,333)	
			(748,822)		(582,893)
Provisions for liabilities	*19*		**(76,292)**		(51,682)
Net assets excluding pension asset			**715,287**		718,602
Pension asset	*25*		**2,286**		5,941
Net assets including pension asset			**717,573**		724,543
Capital and reserves					
Called up share capital	*20*		**500,000**		500,000
Statutory distributable reserve	*21*		**171,690**		171,690
Profit and loss account	*21*		**45,883**		52,853
Shareholder's funds			**717,573**		724,543

These financial statements were approved by the Board of Directors on 29 June 2010 and were signed on its behalf by:

Laurence MacKenzie Chief Executive
29 June 2010
Company number NI054463

Cash Flow Statement for the year ended 31 March 2010

	Note 29	2009/10 £000	2008/09 Restated £000
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		**89,547**	68,786
Depreciation charges		**62,106**	52,673
Amortisation of deferred grants and contributions		**(590)**	(407)
Profit on sale of fixed assets		**(264)**	(94)
PPP residual asset credits (see note 24)		**(2,164)**	(1,520)
Decrease in stocks		**31**	504
(Increase) / decrease in operating debtors		**(11,485)**	653
(Decrease) / increase in operating creditors		**(2,191)**	5,748
(Excess) / shortfall of pension payments over FRS17 charge		**(7,491)**	2,004
Increase in provisions		**19,278**	6,007
Settlement of provisions		**(7,033)**	(285)
Net cash inflow from operating activities		**139,744**	134,069
Returns on investments and servicing of finance	*26*	**(37,983)**	(20,365)
Capital expenditure and financial investment	*26*	**(244,747)**	(263,009)
Equity dividends paid to shareholders		**(35,006)**	(33,956)
Cash outflow before management of liquid resources and financing		**(177,992)**	(183,261)
Management of liquid resources	*26*	**9,000**	35,000
Financing	*26*	**167,094**	149,570
(Decrease) / increase in cash in the period		**(1,898)**	1,309

Statement of Total Recognised Gains and Losses for the year ended 31 March 2010

	Note	**2009/10**	2008/09
	29		Restated
		£000	£000
Profit for the financial year		**37,291**	34,905
Actuarial (loss) / gain recognised in the pension scheme		**(12,855)**	2,314
Deferred tax arising on losses / (gains) in the pension scheme		**3,600**	(648)
Total recognised gain relating to the financial year		**28,036**	36,571
Prior year adjustment	*29*	**(6,387)**	
Total recognised gain since last annual report		**21,649**	

Reconciliation of Movements in Shareholder's Funds for the year ended 31 March 2010

	2009/10	Restated 2008/09
	£000	£000
Profit for the financial year	**37,291**	34,905
Dividends on ordinary shares	**(35,006)**	-
Retained profit	**2,285**	34,905
Other recognised gains and losses relating to the year (net)	**(9,255)**	1,666
Net (reduction in) / addition to shareholder's funds	**(6,970)**	36,571
Opening shareholder's funds (as previously stated)	**730,930**	693,741
Prior year adjustment (as explained in note 29)	**(6,387)**	(5,769)
Opening shareholder's funds (as restated)	**724,543**	687,972
Closing shareholder's funds	**717,573**	724,543

1 Accounting policies

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

(a) Basis of preparation

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

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities. The Directors are content to adopt this approach for the following reasons:

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

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

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

- Cashflow projections indicate that the Company will be able to meet its liabilities as they fall due.

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

(b) Turnover

Turnover represents:

(i) The income receivable (excluding VAT) in the ordinary course of business for goods and services provided and, in respect of unbilled charges, includes an accrual for estimated consumption not yet invoiced; and

(ii) Customer subsidy provided by DRD relating to the deferment of the introduction of domestic charges that were planned for 1 April 2007.

(c) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

(i) Infrastructure assets

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

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, which is based on the Company’s Asset Management Plan, which was independently reviewed by the Interim Reporter (a professional commentator and reviewer for NI Water Service). A full Reporter was appointed in 2007/08 to examine, test and give his opinion to UR on the regulated activities of NI Water. Work has been carried out for the purposes of PC10 on the estimated level of IRE required. This work has not been independently certified and has not been used for the purposes of calculating IRC.

(ii) Assets in the course of construction

Assets in the course of construction are separately classified within fixed assets 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) Other assets

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

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

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

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

(d) Grants, contributions and capital subsidies

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

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

Grants and contributions for capital expenditure, other than infrastructure assets, are credited to a deferral account within creditors and are released to the profit and loss account evenly over the expected useful life of the relevant asset in accordance with the provisions of the Companies Act 2006.

Grants, contributions and capital subsidy for capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with the Companies Act 2006 which requires grants and contributions to be shown as deferred income, but has been adopted in order to show a true and fair view. In the opinion of the Directors, while a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income.

(e) Leases

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

(f) Private Finance Initiatives (‘’PFI’’) transactions

Where the balance of risks and rewards of ownership of the assets involved in the supply of services was deemed to be borne by the PFI operator the associated payments have been recorded as an expense in the profit and loss account. For these contracts the assets are to revert to the Company at the end of the contract and a residual asset is built up on the balance sheet through the course of the contract by crediting the profit and loss account and the final residual asset value will reflect the difference between the expected fair value of the residual on reversion and the agreed payment on reversion.

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

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

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

(i) Post-retirement benefits
The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus is recognised in full (net of deferred tax). The movement in the scheme surplus is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

(j) Research and development expenditure
Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

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

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

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

(m) Dividends on shares presented within shareholder's funds
Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

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

(ii) Derivative financial instruments
The Company has not entered into any derivative financial contracts.

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

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

(q) Provisions
Provisions are recognised whenever the Company has a present obligation for a past event, for which it is probable that a transfer of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

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

2 Segmental analysis

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

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

3 Operating Costs

	2009/10 £000	Restated 2008/09 £000
Raw materials and consumables	**12,236**	13,816
Other operating costs*	**143,789**	137,015
Staff Costs (notes 5 and 6)	**57,363**	70,776
Own work capitalised (note 6)	**(11,895)**	(10,993)
Profit on sale of fixed assets	**(264)**	(94)
Depreciation and other amounts written off tangible assets	**62,106**	52,673
Amortisation of deferred grants and contributions	**(590)**	(407)
Total operating costs	**262,745**	262,786

*Other operating costs comprise:

	2009/10 £000	Restated 2008/09 £000
Power	**37,052**	31,972
Rates	**14,445**	12,501
Hire and contracted services	**77,408**	70,881
Other operating costs	**14,884**	21,661
Total other operating costs	**143,789**	137,015

4 Operating profit

	2009/10 £000	2008/09 £000
Profit on ordinary activities before taxation is stated after charging		
Hire of other assets - operating leases	**57**	40
Auditors' remuneration:		
Audit of statutory financial statements	**79**	75
Audit of prior year financial statements	**-**	25
Audit of regulatory financial statements	**25**	24
Audit of Whole of Government Accounts submission	**4**	-
	108	124
Amounts receivable by the auditors and their associates in respect of:		
Other services relating to taxation	**189**	91
Accounting and regulatory advice	**7**	9
	196	100
Total fees paid to the auditors	**304**	224

5 Remuneration of Directors

5a Directors' emoluments

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

	2009/10	2008/09
	£000	£000
Laurence MacKenzie* (Chief Executive from 28 July 2009)	**130**	-
Katharine Bryan* (Chief Executive – resigned 31 May 2008)	**-**	280
Chris Mellor* (Chairman until 11 March 2010 – was Acting Chief Executive from 1st June 2008 – 28 July 2009)	**91**	159
Phil Barker* (resigned 31 December 2008)	**-**	88
Ronan Larkin*	**129**	108
George Butler*	**119**	36
John Ballard** (until 11 March 2010)	**22**	24
Ruth Thompson** (until 11 March 2010)	**22**	25
Declan Gormley** (until 11 March 2010)	**23**	12
Donald Price**	**20**	12
	556	744

No bonuses were paid to Executive Directors for 2009/10

* Executive Director
** Non Executive Director

5b Directors' pension entitlement

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

	Accrued pension at age 60 as at 31 March 2010 £000	**Accrued pension at age 60 as at 31 March 2009 £000**	**Increase in pension £000**	**Total Increase in pension at age 60 £000**
Laurence MacKenzie*	**2**	-	2	2
Ronan Larkin	**8**	6	2	2
George Butler	**9**	7	2	2

	Transfer value at 31 March 2010 £000	**Transfer value at 31 March 2009 £000**	**Increase in transfer value related to NIW scheme less Director's contributions £000**	**Director's contributions £000**	**Total Increase in transfer value £000**
Laurence MacKenzie*	**36**	-	32	4	36
Ronan Larkin	**129**	100	25	4	29
George Butler	**161**	128	29	4	33

The accrued pension is the amount that the Director would receive if he/she retired at the end of the year. The increase in the accrued entitlement is the difference between the accrued benefit at the year end and that at the previous year end. The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the Director's pension benefits.

The Directors, in common with all other Company employees who transferred from NIWS, took part in an exercise in February 2009 to decide if they wanted their accrued benefits in the PCSPS(NI) transferred to the Company's scheme. This exercise is now complete and the figures above include the outcome of this exercise.

Katharine Bryan and Phil Barker ceased to be Directors in the year to 31 March 2009 and as such their pension position has not been disclosed.

* Chief Executive from 28 July 2009

6 Staff numbers and costs

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

	No. of employees 2009/10	No. of employees 2008/09
Executive Directors	**3**	7
Non industrial staff	**812**	851
Industrial staff	**600**	742
	1,415	1,600

The aggregate payroll costs of these persons were as follows:

	2009/10 £000	2008/09 £000
Wages and salaries	**42,872**	50,089
Social security costs	**3,492**	3,500
Other pension costs	**10,999**	17,187
	57,363	70,776

An amount of £9,319k (2009: £8,796k) of the above payroll costs has been capitalised as it relates to work carried out by the Company that adds to the value of fixed assets (these staff costs capitalised are included in the £11,895k shown in Note 3 as 'own work capitalised').

7 Interest receivable

	2009/10	2008/09
	£000	£000
Bank interest	**252**	1,836

8 Other finance income

	2009/10	2008/09
	£000	£000
Expected return on pension scheme assets	**4,507**	3,828
Interest on pension scheme liabilities (see note 25)	**(4,219)**	(3,691)
	288	137

9 Interest payable and similar charges

	2009/10	2008/09
	£000	£000
On bank loans and overdrafts	**24**	13
On all other loans	**26,904**	17,886
On PFI arrangements (see note 24)	**11,325**	4,193
	38,253	22,092

Of the above amount £26,904k (2009: £17,886k) was payable to DRD in relation to loan notes issued (see note 17 'Loans, other borrowings and financial instruments' and note 28 'Related party disclosures').

10 Taxation

	2009/10 £000	Restated 2008/09 £000
Analysis of charge in period		
Current tax charge	**-**	-
Deferred tax		
Origination/reversal of timing differences	**13,166**	14,209
FRS 17 pension adjustments	**2,178**	(523)
Adjustment in respect of previous years	**(801)**	76
Total deferred tax charge	**14,543**	13,762
Tax charge on profit on ordinary activities	**14,543**	13,762

Factors affecting the tax charge for the current period
The current tax charge for the period is lower (2009: lower) than the standard rate of corporation tax in the UK 28% (2009: 28%). The differences are explained below.

	2009/10 £000	Restated 2008/09 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**51,834**	48,667
Current tax at 28% (2009: 28%)	**14,514**	13,627
Effects of:		
Expenses not deductible for tax purposes	**1,292**	140
Capital allowances for period in excess of depreciation	**(34,866)**	(26,150)
Other timing differences	**(2,976)**	523
Trade losses carried forward	**22,036**	11,860
Total current tax charge	-	-

Factors that may affect future current and total tax charges
The Company's current tax charge will be affected in future years by the requirements of the Northern Ireland Asset Management Plan. Based on current capital investment plans, the Company expects to continue to claim capital allowances in excess of depreciation in future years. The Company's current tax charge will also be affected in future years by trading losses available to offset against future trading profits.

11 Dividends

	2009/10 £000	2008/09 £000
The aggregate amount of dividends comprises:		
Dividends in respect of the prior year paid in the year	**35,006**	-
	35,006	-

The aggregate amount of dividends declared and approved and fully paid as at the year end is Nil (2009: Nil).

12 Tangible fixed assets

	Land and Buildings	Infrastructure assets**	Operational Assets*	Vehicle plant and equipment	Assets in the course of construction	**Total**
	£000	£000	£000	£000	£000	**£000**
Cost						
At 1 April 2009 (as originally stated)	74,397	763,834	418,337	9,860	268,762	**1,535,190**
Prior year adjustment	(3,095)	-	-	-	-	**(3,095)**
At 1 April 2009 (as restated)	71,302	763,834	418,337	9,860	268,762	**1,532,095**
Additions	3	(2,731)	6	-	257,311	**254,589**
Disposals	(75)	-	(32)	(729)	-	**(836)**
Transfers	3,530	237,741	82,820	1,642	(325,733)	**-**
At 31 March 2010	**74,760**	**998,844**	**501,131**	**10,773**	**200,340**	**1,785,848**
Depreciation						
At 1 April 2009 (as originally stated)	(1,410)	(70,279)	(24,066)	(3,939)	-	**(99,694)**
Prior year adjustment	(1,856)	-	(1,436)	-		**(3,292)**
At 1 April 2009 (as restated)	(3,266)	(70,279)	(25,502)	(3,939)		**(102,986)**
Charge for year	(1,102)	(37,035)	(22,381)	(1,588)	-	**(62,106)**
On disposals	-	-	5	605	-	**610**
At 31 March 2010	**(4,368)**	**(107,314)**	**(47,878)**	**(4,922)**	**-**	**(164,482)**
Net Book Value						
At 31 March 2010	**70,392**	**891,530**	**453,253**	**5,851**	**200,340**	**1,621,366**
At 31 March 2009	68,036	693,555	392,835	5,921	268,762	1,429,109

Included in the total net book value of assets in course of construction is £5,516k (2009: £3,351k) in respect of the residual interest assets in Private Finance Initiative contracts (see note 24). These assets are not depreciated.

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

** Infrastructure assets are shown net of capital contribution

	2009/10	Restated 2008/09
	£000	£000
The net book value of land and buildings comprises:		
Freehold	**69,360**	66,989
Leasehold - long and short term	**1,031**	1,047
Total	**70,391**	68,036

	2009/10	2008/09
	£000	£000
Land within this total is not depreciated and is shown as follows:		
Freehold	**34,645**	34,052
Leasehold - long and short term	**588**	592
	35,233	34,644

13 Fixed asset investments

	2009/10 £000	2008/09 £000
8% unsecured loan stock (15,278 units at £1 each)	**15**	15
15,278 ordinary 'A' shares of £1 each (held at £5.95 each)	**91**	91
	106	106

Note: The shares and loan stock relate to an investment in WRc PLC. WRc carries out research in the water, waste and environment sectors.

The current market value at 31 March 2010 was £9.79 per ordinary share (2009 £10.16). The loan stock is unlisted.

14 Stocks

	2009/10 £000	2008/09 £000
Raw materials and consumables	**1,830**	1,831
Work in progress	**40**	70
	1,870	1,901

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

15 Debtors

	2009/10 £000	2008/09 £000
Trade debtors	**17,063**	8,033
Other debtors	**1,505**	1,780
VAT receivable	**5,934**	6,974
Accrued income	**16,432**	13,046
Prepayments	**614**	225
	41,548	30,058

16 Creditors: amounts falling due within one year

	2009/10	2008/09
	£000	£000
Payments received on account	**1,677**	1,510
Trade creditors	**14,989**	18,237
Taxation and social security	**1,164**	1,160
Other creditors	**6,230**	3,378
Accruals	**110,927**	104,564
Deferred grants and contributions	**605**	574
Private Finance Initiative lease obligation (see note 24)	**2,313**	2,888
	137,905	132,311

17 Loans, other borrowings and financial instruments

	2009/10	2008/09
	£000	£000
Capital Loan Notes	**627,560**	457,560
	627,560	457,560
Borrowings are repayable as follows:		
In more than five years	**627,560**	457,560
	627,560	457,560

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

Borrowing Facilities

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

The Working Capital facility is provided by DRD for the period to 31 March 2014. Borrowings on the facility are repayable on demand. Interest is payable at a floating rate of the London Interbank Offered Rate (LIBOR) + 0.35%.

The Revolving Credit facility is also provided by the DRD for the period to 31 March 2014. The facility is split into two elements, Facility A and Facility B. Interest is payable on Facility A at floating rates of LIBOR +0.35% and on Facility B at floating rates of LIBOR + 2.00%.

18 Creditors: amounts falling due after more than one year

	2009/10	2008/09
	£000	£000
Private Finance Initiative lease obligations (see note 24)	**105,805**	108,390
Other creditors	**332**	2,418
Deferred grants and contributions	**15,125**	14,525
	121,262	125,333

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

	2009/10	2008/09
	£000	£000
Within one year*	**-**	-
Within the second to fifth years	**2,857**	2,298
Over five years	**12,268**	12,227
	15,125	14,525

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

	2009/10	2008/09
	£000	£000
Within one year*	**-**	-
Within the second to fifth years	**11,034**	12,856
Over five years	**94,771**	95,534
	105,805	108,390

* Amounts payable within one year are included in note 16.

19 Provisions for liabilities

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement Provisions £000	Deferred Tax £000	Other Provisions £000	**Total £000**
At 1 April 2009	7,204	1,017	8,103	438	31,044	3,876	**51,682**
New provisions	2,045	890	-	-	12,365	18,240	**33,540**
Utilised	(4,000)	(957)	(1,050)	(50)	-	(976)	**(7,033)**
Unwinding of discounted amount	-	-	-	9	-	-	**9**
Amounts released unused	(1,495)	(211)	-	-	-	(200)	**(1,906)**
At 31 March 2010	**3,754**	**739**	**7,053**	**397**	**43,409**	**20,940**	**76,292**

The Public liability and Employer liability claims at 31 March 2010 relate to unsettled claims. The public liability claims principally relate to water treatment incidents and contractors' business interruption incidents in prior years and whilst the claims submitted against the Company are in excess of the provisions made, the year end provisions represent management's best estimates.

The environmental provision was calculated after carrying out an Environmental and Liability Assessment of the Company's services sites. The early retirement provision relates to those retirement benefits accruing to those members who took early retirement prior to 1 April 2007. The provision represents the total of retirement benefits due to those members from 31 March 2010 to their official date of retirement, discounted to present value.

Other provisions relate to claims arising from contractual arrangements with suppliers (including operators of off balance sheet PFI arrangements). These provisions represent management's best estimates.

19 Provisions for liabilities (continued)

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

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement Provisions £000	Deferred Tax* £000	Other Provisions £000	**Total £000**
Within one year	1,005	195	2,300	200	-	14,121	**17,821**
In the second to fifth years	2,749	544	4,753	197	43,409	6,819	**58,471**
Over five years	-	-	-	-	-	-	**-**
	3,754	**739**	**7,053**	**397**	**43,409**	**20,940**	**76,292**

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

The estimated payment of provisions at 31 March 2009 was:

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement Provisions £000	Deferred Tax* £000	Other Provisions £000	**Total £000**
Within one year	2,129	400	1,500	241	-	3,876	**8,146**
In the second to fifth years	5,075	617	6,603	197	31,044	-	**43,536**
Over five years	-	-	-	-	-	-	**-**
	7,204	**1,017**	**8,103**	**438**	**31,044**	**3,876**	**51,682**

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

The elements of deferred taxation are as follows:

	2009/10 £000	2008/09 £000
Difference between accumulated depreciation and amortisation and capital allowances	**87,210**	42,953
Other timing differences	**(43,801)**	(11,909)
Deferred tax liability	**43,409**	31,044

19 Provisions for liabilities (continued)

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

	2009/10 £000 Excluding FRS 17	2009/10 £000 FRS 17	**2009/10 £000 Total**	2008/09 £000 Excluding FRS 17	2008/09 £000 FRS 17	**2008/09 £000 Total**
Opening liability	31,044	2,310	**33,354**	16,760	2,185	**18,945**
Current year deferred tax charge/ (credit) to profit and loss account	13,166	2,178	**15,344**	14,209	(523)	**13,686**
Prior year deferred tax charge to profit and loss account	(801)	-	**(801)**	75	-	**75**
Current year deferred year tax charge to the Statement of Total Recognised Gains and Losses	-	(3,600)	**(3,600)**	-	648	**648**
Closing liability	43,409	888	**44,297**	31,044	2,310	**33,354**

20 Called up share capital

	2009/10 £000	2008/09 £000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000
Shares classified in Shareholder's funds	**500,000**	500,000

21 Reserves

	2009/10 Statutory distributable reserve* £000	**2009/10 Profit and loss account £000**	As restated 2008/09 Statutory distributable reserve* £000	As restated 2008/09 Profit and loss account £000
At beginning of year (as originally stated)	**171,690**	**59,240**	171,690	22,051
Prior year adjustment (see note 29)	-	**(6,387)**	-	(5,769)
At beginning of year (as restated)	171,690	**52,853**	171,690	16,282
Profit for the year	**-**	**37,291**	-	34,905
Dividends on shares classified as Shareholder's funds	**-**	**(35,006)**	-	-
Actuarial (loss) / gain recognised in the pension scheme	**-**	**(12,855)**	-	2,314
Deferred tax arising on (losses)/gains in the pension scheme	**-**	**3,600**	-	(648)
	171,690*	**45,883**	171,690*	52,853

*£171.69m distributable reserve established under enabling legislation.

	2009/10 £000	As restated 2008/09 £000
The profit and loss account reserve can be analysed into the following components based on a review of contributions to the pension scheme since the beginning of the 2007/08 financial year:		
Relating to pension asset	**(27,494)**	(5,350)
Other elements	**73,377**	58,203
Profit and loss reserve including pension asset	**45,883**	52,853

22 Contingent liabilities and contingent assets

The Company is disputing liability in some public and employer liability cases arising from the Water Service. The estimate of the financial effect is £650k (2009: £1,000k). 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 £6.0m (2009: £8.6m), 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.

	2009/10	2008-09
	£	£
Public and employer liability	**2,011,000**	1,000,000
Contractor claims *	**6,000,000**	8,600,000
	8,011,000	9,600,000

Debenture to DRD

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

Contingent Assets

The Company received a number of cash performance bonds from customers in relation to requisition of water mains and sewerage services. These balances are included in creditors (see note 16) and are only recognised in income when customers are in default of agreed conditions. The Company has also received a number of paper performance bonds issued by banks and the National House Building Council (NHBC) on behalf of customers in relation to requisition of water mains and sewerage services. These are not recognised in the financial statements. These items are accounted for as contingent assets as an inflow of economic benefits is considered to be remote as there is no information available at this time that would indicate that the performance bonds are likely to be presented to the issuing party in respect of non-performance by the customer.

* Associated with some of the contractors' claims, disclosed as contingent liabilities above or included in provisions at note 19, there are counter-claims the likely settlement value of which are uncertain and therefore are not disclosed.

23 Commitments

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

	2009/10	2008/09
	£000	£000
Contracted	**75,000**	101,858

(b) In addition to the above at the end of the financial year the Company had entered into commitments amounting to £118,000k (2009: £153,340k)

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

	2009/10	2008/09
	Other	Other
	£000	£000
Operating leases which expire:		
Within one year	**5**	29
In the second to fifth years inclusive	**69**	5
	74	34

24 Private Finance Initiative commitments

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

Off-Balance Sheet

Kinnegar

A contract with Coastal Clearwater Ltd. was signed on 30 April 1999 for the provision of sewerage treatment which covered the upgrading of the Kinnegar Waste Treatment Works with a capital cost in the region of £11 million. The contract is for 25 years with an end date of 30 April 2024.

The PFI property involved is not an asset of the Company but the assets will revert to the Company at the end of the contract and to account for this the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year. In 2009-2010 an amount of £232k (2009: £226k) was credited to the profit and loss account for this year. These transactions gave rise to a residual interest asset of £1,986k (2009: £1,754k) in Kinnegar at year end. This asset has been included in Fixed Assets (see Note 12).

Omega

A contract with Glen Water Ltd. was signed on 6 March 2007 for the provision of sewerage treatment and sludge disposal at five sites with a capital cost in the region of £122 million. The contract is for 25 years with an end date of 5 March 2032. The PFI property involved is not an asset of the Company but since the assets will revert to the Company at the end of the contract part of the unitary charge has been capitalised as a residual interest asset. In 2009-2010 an amount of £1,932k (2009: £1,294k) was credited to the profit and loss account for this year. These transactions gave rise to a residual interest asset of £3,529k (2009: £1,597k) in Omega at year end. This asset has been included in Fixed Assets (see Note 12).

24 Private Finance Initiative commitments (continued)

Silent Valley / Ben Crom

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

Charge to the Profit and Loss Account and future commitments

In 2009-10 the charge to the profit and loss account in respect of Kinnegar unitary payments was £2,017k (2009: £1,234k). The gross unitary payment was £2,249k (2009: £1,460k) with £232k (2009: £226k) capitalised in relation to the residual interest asset. The future estimated annual amount payable under the Kinnegar off-balance PFI agreement is £2,345k (2009: £2,345k).

In 2009-10 the charge to the profit and loss account in respect of Omega unitary payments was £6,885k (2009: £8,083k). The gross accrued amount for Omega was £8,817k (2009: £9,377k) with £1,932k (2009: £1,294k) capitalised in relation to the residual interest asset.

An amount of £6,339k was charged to the profit and loss account in 2009-10 in respect of an increased provision for claims from Glenwater giving rise to a total profit and loss account charge for Omega for 2009-10 of £13,224k.

The future estimated annual amount payable under the Omega off-balance PFI agreement is £23,842k (2009: £23,180k).

The future estimated total annual amount payable under off-balance PFI agreements is £26,187k (2009: £25,525k).

These payments are subject to performance, volume and quality targets being met, which lead to fluctuations in the amount payable. Payments to which the Company is committed during 2010-2011, analysed by the period during which the commitment expires is as follows:

	2009/10	2008/09
	£000	£'000
Expiry within 1 year	**-**	-
Expiry within 2 to 5 years	**-**	-
Expiry within 6 to 10 years	**-**	-
Expiry within 11 to 15 years	**2,345**	-
Expiry within 16 to 20 years	**-**	2,345
Expiry within 21 to 25 years	**23,842**	23,180

On-Balance Sheet

Alpha

A contract with Dalriada Water Ltd was signed on 30 May 2006 for the provision of bulk drinking water supplies. This has a capital cost in the region of £111 million. The service provision has commenced roll-out from November 2008. The contract is for 25 years with an end date of 29 May 2031.

24 Private Finance Initiative commitments (continued)
Charge to the profit and loss and future commitments

This transaction is treated as an on balance sheet PFI transaction and the 2009-10 unitary charge payment was accounted for in the following components:

- The charge to the profit and loss account in respect of the service element of the Alpha unitary payments was £1,402k (2009: £1,289k);
- The charge to the profit and loss account in respect of the finance charge element of the Alpha unitary payments was £11,325k (2009: £4,193k)
- An amount of £2,906k (2009: £430k) of the unitary charge was debited to the balance sheet as it related to the repayment of the notional finance lease underpinning this on-balance sheet transaction; and
- An amount of £224k (2009: Nil) of the unitary charge was debited to the balance sheet as an addition to operational assets in relation to the capital maintenance for the Alpha project in accordance with the Company's accounting policies.

The future estimated first full year (2010-2011) annual amount payable under the Alpha on-balance PFI agreement is £17,952k. These payments are subject to performance, volume and quality targets being met, which lead to fluctuations in the amount payable. Payments to which the company is committed during 2010-2011, analysed by the period during which the commitment expires is as follows:

	2009/10	2008/09
	£'000	£'000
Expiry within 1 year	-	-
Expiry within 2 to 5 years	-	-
Expiry within 6 to 10 years	-	-
Expiry within 11 to 15 years	-	-
Expiry within 16 to 20 years	-	-
Expiry within 21 to 25 years	**17,952**	17,931

Guarantees to Alpha and Omega concessionaires

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

25 Pension Scheme

Defined benefit pension scheme

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

The associated cash transfer from the PCSPS(NI) to the Company scheme is expected to take place in the 2010/2011 financial year. An employer contribution rate of 29.3% applied from April 09 - September 09 and 26.9% from October 2009 - March 2010 (2009 29.3% all year) of pensionable pay applied during the year. The Company expects to contribute approximately £10.4m to the Scheme in 2010/11 excluding any additional contributions arising to fund past service costs.

The major assumptions used by the actuary in this disclosure:

	Conditions at 31.3.10	Conditions at 31.3.09
Rate of increase in salaries	**4.75%**	4.50%
Rate of increase in pensions in payment and deferred pensions	**3.75%**	3.50%
Discount rate	**5.75%**	6.75%
Inflation assumption	**3.75%**	3.50%
Bulk transfer	**N/A**	20.00%

Composition of the Scheme

The scheme is open to new entrants and therefore the service cost as a percentage of Pensionable Salaries is expected to remain steady over time. Accrued liabilities are based on approximate calculations carried out by a qualified independent actuary. The scheme's first full actuarial valuation was carried out as at 1 April 2008.

	31/03/2010			
	Non-industrial		**Industrial**	
	Male	**Female**	**Male**	**Female**
Member age 60 (current life expectancy)	**26.4**	**29.4**	**24.7**	**27.6**
Member age 40 (life expectancy at age 60)	**28.6**	**31.5**	**26.7**	**29.6**

	31/03/2009			
	Non-industrial		**Industrial**	
	Male	**Female**	**Male**	**Female**
Member age 60 (current life expectancy)	**26.3**	**29.3**	**24.6**	**27.5**
Member age 40 (life expectancy at age 60)	**28.5**	**31.4**	**26.6**	**29.5**

25 Pension Scheme (continued)

The weighted-average target asset allocations at the year-ends were as follows:	**Total Scheme assets at 31/3/2010**	**Total Scheme assets at 31/3/2009**
Asset category		
Equities	**22.50%**	17.50%
Corporate Bonds	**10.00%**	3.50%
Gilts	**15.00%**	14.00%
Other	**2.50%**	N/A
Bulk transfer	**50.00%**	65.00%
	100.00%	100.00%

Scheme assets and liabilities

	Scheme at 31 March 2010	Estimated bulk transfer at 31 March 2010	**Total at 31 March 2010**	Total at 31 March 2009
	£000	£000	**£000**	£000
Equities	20,900	-	**20,900**	11,739
Corporate bonds	9,164	-	**9,164**	11,739
Gilts	16,182	-	**16,182**	-
Other	1,537	-	**1,537**	-
Bulk transfer	-	49,506	**49,506**	44,117
Total market value of assets	47,783	49,506	**97,289**	67,595
Actuarial value of liabilities	(45,190)	(48,925)	**(94,115)**	(59,344)
Surplus in the scheme - pension asset	2,593	581	**3,174**	8,251
Related deferred tax liability	(726)	(162)	**(888)**	(2,310)
Net pension asset	1,867	419	**2,286**	5,941

25 Pension Scheme (continued)

Expected rates of return on the assets in the scheme

	Scheme conditions at 31 March 2010	Estimated bulk transfer conditions at 31 March 2010	**Conditions at 31 March 2010**	Conditions at 31 March 2009
Equities	7.50%	-	**7.50%**	7.50%
Corporate Bonds	5.75%	-	**5.75%**	6.75%
Gilts	4.50%	-	**4.50%**	4.50%
Other	7.50%	-	**7.50%**	-
Bulk transfer	-	6.00%	**6.00%**	6.00%
Weighted Return	**-**	-	**6.13%**	6.04%

Changes in the fair value of plan assets

	Scheme year to 31 March 2010	Estimated bulk transfer year to 31 March 2010	**Total year to 31 March 2010**	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009	Total year to 31 March 2009
	£000	£000	**£000**	£000	£000	£000
At the beginning of the year	23,478	44,117	**67,595**	10,848	118,896	129,744
Movement in year						
Actuarial losses as a result of change in Bulk transfer uptake	-	-	**-**	-	(71,338)	(71,338)
Expected return on assets	1,860	2,647	**4,507**	1,013	2,815	3,828
Contributions by plan participants	818	-	**818**	751	-	751
Contributions by employer	18,491	-	**18,491**	15,183	-	15,183
Actuarial gain/(loss)	6,042	2,742	**8,784**	(2,600)	(6,256)	(8,856)
Benefits paid	(2,270)	-	**(2,270)**	(1,717)	-	(1,717)
Settlements	(636)	-	**(636)**	-	-	-
	47,783	49,506	**97,289**	23,478	44,117	67,595

25 Pension Scheme (continued)

Analysis of the present value of the defined benefit obligations

	Scheme year to 31 March 2010	Estimated bulk transfer year to 31 March 2010	**Total year to 31 March 2010**	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009	Total year to 31 March 2009
	£000	£000	**£000**	£000	£000	£000
At the beginning of the year	23,919	35,425	**59,344**	13,300	108,640	121,940
Movement in year						
Actuarial gains as a result of change in Bulk transfer uptake	-	-	**-**	-	(65,184)	(65,184)
Current service cost*	7,773	-	**7,773**	10,487	-	10,487
Interest on scheme liabilities	1,844	2,375	**4,219**	1,091	2,600	3,691
Past service costs**	3,207	-	**3,207**	6,700	-	6,700
Actuarial (gain)/loss	9,685	11,955	**21,640**	(6,941)	(10,383)	(17,324)
Contributions by plan participants	818	-	**818**	751	-	751
Benefits paid	(1,791)	(479)	**(2,270)**	(1,469)	(248)	(1,717)
Settlements	(265)	(351)	**(616)**	-	-	-
	45,190	48,925	**94,115**	23,919	35,425	59,344

* Current service costs have reduced in the year due to financial assumptions and a reduction in the Company's underlying staff numbers and salary costs.
** Past service costs relate to the pensionable elements of voluntary early retirement and voluntary severance schemes

Analysis of other pension costs charged in arriving at operating profit

	Scheme year to 31 March 2010	Estimated bulk transfer year to 31 March 2010	**Total year to 31 March 2010**	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009	Total year to 31 March 2009
	£000	£000	**£000**	£000	£000	£000
Current service costs (operating costs - staff costs)	7,773	-	**7,773**	10,487	-	10,487
Past service costs (operating costs - staff costs)	3,207	-	**3,207**	6,700	-	6,700
Settlements	371	(352)	**19**	-	-	-
Total operating charge	11,351	(352)	**10,999**	17,187	-	17,187

25 Pension Scheme (continued)

Analysis of amounts included in other finance income

	Scheme year to 31 March 2010	Estimated bulk transfer year to 31 March 2010	**Total year to 31 March 2010**	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009	Total year to 31 March 2009
	£000	£000	**£000**	£000	£000	£000
Total operating charge brought forward	11,351	(352)	**10,999**	17,187	-	17,187
Expected return on pension scheme assets	1,860	2,647	**4,507**	1,013	2,815	3,828
Interest on pension scheme liabilities	(1,844)	(2,375)	**(4,219)**	(1,091)	(2,600)	(3,691)
Other finance income	16	272	**288**	(78)	215	137
Total profit and loss charge	11,335	(624)	**10,711**	17,265	(215)	17,050

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

	Scheme year to 31 March 2010	Estimated bulk transfer year to 31 March 2010	**Total year to 31 March 2010**	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009*	Total year to 31 March 2009
	£000	£000	**£000**	£000	£000	£000
Actual return less expected return on scheme assets	6,042	2,742	**8,784**	(2,600)	(6,256)	(8,856)
Experience gains and losses	58	(82)	**(24)**	-	(9,428)	(9,428)
Changes in assumptions underlying the present value of scheme liabilities	(9,742)	(11,873)	**(21,615)**	6,941	13,657	20,598
Actuarial gain recognised in statement of total recognised gains and losses	(3,642)	(9,213)	**(12,855)**	4,341	(2,027)	2,314
Cumulative amount of actuarial gains immediately recognised (before deferred tax)	1,405	9,428	**10,833**	5,047	18,641	23,688

* Certain amounts have been reclassified to enable comparison with the current year.

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.

25 Pension Scheme (continued)

	Scheme year to 31 March 2010	Estimated bulk transfer year to 31 March 2010	**Total year to 31 March 2010**	Scheme year to 31 March 2009	Estimated bulk transfer year to 31 March 2009*	Total year to 31 March 2009
	£000	£000	**£000**	£000	£000	£000
Actual return on plan assets	7,902	5,389	**13,291**	(1,587)	(3,441)	(5,028)

History of experience gains and losses

	Total to 31 March 2010	Total to 31 March 2009**	Total to 31 March 2008**
Experience adjustments on scheme liabilities:			
Amount (£'000)	**(24)**	(68,458)*	33
Percentage of scheme assets	**-%**	(115%)	-%
Experience adjustments on scheme assets			
Amount (£'000)	**8,784**	(80,194)*	8,651
Percentage of scheme assets	**9%**	(119%)	7%

* Due to reduction in take up assumption.

** Certain amounts have been reclassified to enable comparison with the current year.

Sensitivity of key assumptions

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

Impact of:

	Change in liability	**Change in liability**	Change in liability	Change in liability
	2010	**2010**	2009	2009
	%	**£m**	%	£m
+or- 0.25% in discount rate	**5.2%**	**5**	5.1%	3
+or- 0.25% in rate of inflation	**5.6%**	**5**	5.6%	3
+or- 02.5% in salary inflation	**2.2%**	**2**	2.5%	1
Increase in life expectancy of 1 year	**2.0%**	**2**	1.6%	1

26 Analysis of cash flows

	2009/10 £000	2008/09 £000
Returns on investments and servicing of finance		
Interest received	**247**	1,840
Interest paid	**(26,905)**	(18,012)
Interest element of finance lease payments	**(11,325)**	(4,193)
Net cash outflow from returns on investments and servicing of finance	**(37,983)**	(20,365)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(251,755)**	(270,069)
Grants and contributions received	**6,514**	6,270
Disposal of tangible fixed assets	**494**	790
Net cash outflow for capital expenditure and financial investment	**(244,747)**	(263,009)
Management of liquid resources		
Decrease in short term deposits and investments	**9,000**	35,000
Net cash outflow from management of liquid resources	**9,000**	35,000
Financing		
Increase in loans	**170,000**	150,000
Capital element of Private Finance Initiative repayments	**(2,906)**	(430)
Net cash outflow from financing	**167,094**	149,570

27 Analysis of net debt

	At start of year £000	Cashflow £000	Other non cash changes £000	**At end of year £000**
Cash in hand and bank	5,314	(1,898)	-	**3,416**
Deposits and investments	19,000	(9,000)	-	**10,000**
	24,314	(10,898)	-	**13,416**
Debt due within one year	(2,888)	-	575	**(2,313)**
Debt due after one year (including PPP liability)	(565,950)	(167,094)	(321)	**(733,365)**
Total	(544,524)	(177,992)	254	**(722,262)**

28 Related party disclosures

The Company is a Government owned Company and 100% owned by DRD. The results of the Company will not be consolidated within the annual financial statements prepared by DRD nor in the financial statements of any other entity. Inter-Company debtor and creditor balances with DRD and other government bodies will be supplied to DRD for the whole of government accounts.

Related party disclosures with DRD are as follows:

	2009/10	2008/09
	£000	£000
Subsidy		
Revenue subsidy from DRD (credited to turnover)	**257,437**	250,374
Capital subsidy from DRD credited to Fixed Assets (infrastructure assets) or deferred contribution (non infrastructure)	**56**	1,033
Trade Debtors - subsidy (included in Trade Debtors note 15)	**-**	246
Trade Creditors - subsidy (included in Other Creditors note 16)	**(94)**	-
Road Drainage income from DRD Roads Service (credited to turnover)	**19,670**	17,175
Other sales to DRD (credited to turnover)	**1,769**	1,346
Trade Debtors - other sales to DRD (included in Trade Debtors note 15)	**634**	266
Purchases		
Purchases from DRD (included in operating costs)	**1,918**	2,362
Trade Creditors - purchases to DRD (included in Trade Creditors and accruals note 16)	**1,914**	352
Loans		
Loans received from DRD during the year (note 26)	**170,000**	150,000
Balance on Loans to DRD at year end (note 17)	**627,560**	457,560
Loan Interest to DRD (note 9) - fully paid in year.	**26,904**	17,886
Dividends		
Dividend to Shareholder (note 11)	**35,006**	-

Other related party disclosures
Donald Price is a Non Executive Director of NI Water and Chairman of the NI Water Audit Committee. He is also a Non Executive Director of Northern Bank Ltd (including various subsidiaries). Northern Bank is the principal banker for NI Water.

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 NI Water purchased £106k (2009: £105k) of services from UK WIR.

Chris Mellor was a Non Executive Director of NI Water during 2009/10. He is also Director of Grontmij and during the year NI Water purchased £7k (2009: £29k) of services from this company.

29 Prior year adjustment

A prior year adjustment has been recognised in the current year in relation to the valuation of land and buildings. Through work undertaken as part of the Company's price control review a number of additional sites were identified where a decision had been taken in prior years to decommission the site at a future date. As a result adjustments were required to accelerate the depreciation on the sites or impair the asset from the date of the decision to decommission to the decommissioning date to reflect residual value at that date. As a result the following prior year adjustment has been recognised in the financial statements.

The effect of the adjustment was an increase in depreciation and a decrease in the reported profit for the year ended 31 March 2009 of £618,000.

The effect of the adjustments on the Company's balance sheet at 31 March 2009 was as follows:

	As previously stated £000	Effect £000	As restated £000
Fixed assets	1,435,496	(6,387)	1,429,109
Opening reserves	22,051	(5,769)	16,282
Total recognised gains and losses for the year	37,189	(618)	36,571
	59,240	(6,387)	52,853

REGULATORY ACCOUNTS

Year ended 31 March 2010

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 fulfill NI Water's obligations under the Appointment). This may be subject to any decisions which may be reached by the NI Executive in relation to public expenditure;

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

   (i) management resources; and

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

Laurence MacKenzie

Chief Executive

29 June 2010

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

We have audited the Regulatory Accounts of Northern Ireland Water Limited ("the Company") set out on pages 85 to 105 which comprise:

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

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

This report is made, on terms that have been agreed, solely to the Company and the Northern Ireland Authority for Utility Regulation ("NIAUR") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Department for Regional Development of Northern Ireland Water Limited as a water and sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the NIAUR those matters that we have agreed to state to them in our report, in order:

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

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

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

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines issued by the Water Services Regulation Authority insofar as these are relevant to the regulatory environment in Northern Ireland, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention. The Regulatory Accounts are separate from the statutory financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of the Company as shown in financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the NIAUR, the Directors and Auditor

The nature, form and content of Regulatory Accounts are determined by the NIAUR. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the NIAUR's purposes. Accordingly we make no assessment. The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the Statement of Directors' Responsibilities for regulatory information on page 43. Our responsibility is to audit the Regulatory Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland), except as stated in the "Basis of audit opinion", below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'. We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for the classification of expenditure), Regulatory Accounting Guideline

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

3.06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.03 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost accounting statements on pages 88 to 91 have been properly prepared in accordance with Regulatory Accounting Guidelines. We also report to you if, in our opinion, the Company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the Appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guidelines. We read the other information contained in the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the performance review, the notes on the regulatory information, and the additional information required by the Licence.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that both the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the NIAUR, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under those auditing standards. Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "statutory" audit) was made solely to the Company in accordance with the terms of our engagement letter in respect of that audit. Our statutory audit work was undertaken so that we might state to the Company those matters which we are required to state to it in a statutory auditors' report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company as a body, for our statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit. The regulatory historical cost accounting statements on pages 85 to 87 have been drawn up in accordance with Regulatory Accounting Guidelines in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be dis-applied. The effect of this departure from Generally Accepted Accounting Practice, and a reconciliation to the balance sheet drawn up under the Companies Act 2006 is given on page 87.

Other matters relevant to our opinion

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

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

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2010 fairly present, in accordance with Condition F of the Instrument of Appointment granted by the Department for Regional Development of Northern Ireland Water Limited as a water and sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006, the Regulatory Accounting Guidelines issued by the NIAUR and the accounting policies set out on pages 92 and 93, the state of the Company's affairs at 31 March 2010 on a historical cost and current cost basis, the historical cost and current cost profit for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

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

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

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

(c) the regulatory historical cost accounting statements on pages 85 to 87 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guidelines issued by the NIAUR; and

(d) the regulatory current cost accounting statements on pages 88 to 105 have been properly prepared in accordance with Regulatory Accounting Guidelines issued by the NIAUR.

KPMG
Chartered Accountants, Belfast
29 June 2010

HISTORIC COST FINANCIAL STATEMENTS

Profit and loss account for the year ended 31 March 2010

	Appointed business 2009/10	**Non – Appointed business 2009/10**	**Total 2009/10**	Restated* appointed business 2008/09	Restated* non-appointed business 2008/09	Restated* Total 2008/09
	£000	**£000**	**£000**	£000	£000	£000
Turnover	347,569	4,723	**352,292**	327,395	4,177	331,572
Operating costs	(234,674)	(3,000)	**(237,674)**	(241,364)	(3,021)	(244,385)
Historical cost depreciation	(25,055)	(16)	**(25,071)**	(18,385)	(16)	(18,401)
Operating profit	87,840	1,707	**89,547**	67,646	1,140	68,786
Net interest receivable/ (payable)	(37,716)	3	**(37,713)**	(20,142)	23	(20,119)
Profit on ordinary activities before taxation	50,124	1,710	**51,834**	47,504	1,163	48,667
Taxation on profit on ordinary activites:						
Deferred tax	(14,273)	(270)	**(14,543)**	(13,531)	(231)	(13,762)
Profit on ordinary activities after taxation	35,851	1,440	**37,291**	33,973	932	34,905
Dividends	(34,537)	(469)	**(35,006)**	-	-	-
Retained profit for the financial year	1,314	971	**2,285**	33,973	932	34,905

*Refer to note 13 of the Regulatory Accounts on page 105

Balance sheet as at 31 March 2010

	Appointed business 2009/10 £000	Non – Appointed business 2009/10 £000	Total 2009/10 £000	Restated Appointed business 2008/09 £000	Restated Non-Appointed business 2008/09 £000	Restated Total 2008/09 £000
Fixed assets						
Tangible assets	1,619,770	144	**1,619,914**	1,428,853	165	1,429,018
Investments	106	-	**106**	106	-	106
	1,619,876	144	**1,620,020**	1,428,959	165	1,429,124
Current assets						
Stocks	1,864	6	**1,870**	1,896	5	1,901
Debtors	40,885	663	**41,548**	29,706	352	30,058
Infrastructure renewals prepayment	1,452	-	**1,452**	91	-	91
Cash at bank and in hand	10,349	3,067	**13,416**	22,554	1,760	24,314
	54,550	3,736	**58,286**	54,247	2,117	56,364
Creditors: amounts falling due within one year						
Payments received on account	(1,677)	-	**(1,677)**	(1,510)	-	(1,510)
Trade creditors	(14,989)	-	**(14,989)**	(18,030)	(207)	(18,237)
Taxation and social security	(1,164)	-	**(1,164)**	(1,160)	-	(1,160)
Other creditors	(6,230)	-	**(6,230)**	(3,378)	-	(3,378)
Accruals and deferred income	(110,328)	(599)	**(110,927)**	(104,495)	(69)	(104,564)
Dividend payable	-	-	**-**	-	-	-
Deferred grants and contributions	(605)	-	**(605)**	(574)	-	(574)
PPP finance lease	(2,313)	-	**(2,313)**	(2,888)	-	(2,888)
Infrastructure renewals accrual	-	-	**-**	-	-	-
	(137,306)	(599)	**(137,905)**	(132,035)	(276)	(132,311)
Net current (liabilities)/assets	(82,756)	3,137	**(79,619)**	(77,788)	1,841	(75,947)
Total assets less current liabilities	1,537,120	3,281	**1,540,401**	1,351,171	2,006	1,353,177
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(627,560)	-	**(627,560)**	(457,560)	-	(457,560)
Other creditors	(121,262)	-	**(121,262)**	(125,333)	-	(125,333)
	(748,822)	-	**(748,822)**	(582,893)	-	(582,893)
Provisions for liabilities and charges						
Deferred tax provision	(42,713)	(695)	**(43,408)**	(30,653)	(391)	(31,044)
Other provisions	(32,884)	-	**(32,884)**	(20,638)	-	(20,638)
	(75,597)	(695)	**(76,292)**	(51,291)	(391)	(51,682)
Pension asset	2,286	-	**2,286**	5,941	-	5,941
Net Assets	714,987	2,586	**717,573**	722,928	1,615	724,543
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	43,297	2,586	**45,883**	51,238	1,615	52,853
Shareholder's funds	714,987	2,586	**717,573**	722,928	1,615	724,543

These financial statements were approved by the Board of Directors on the 29 June 2010 and were signed on its behalf by:

Laurence MacKenzie

Laurence MacKenzie
Chief Executive
29 June 2010

Statement of total recognised gains and losses for the year ended 31 March 2010

	Appointed business 2009/10	**Non – Appointed business 2009/10**	**Total 2009/10**	Restated Appointed business 2008/09	Restated Non-Appointed business 2008/09	Restated Total 2008/09
	£000	**£000**	**£000**	£000	£000	£000
Profit for the financial year	35,851	1,440	**37,291**	33,973	932	34,905
Actuarial gain recognised in the pension scheme	(12,855)	-	**(12,855)**	2,314	-	2,314
Deferred tax arising on gains in the pension scheme	3,600	-	**3,600**	(648)	-	(648)
Total recognised gains and losses relating to the financial year	26,596	1,440	**28,036**	35,639	932	36,571
Prior year adjustment (as explained in note 13)	(6,387)	-	**(6,387)**			
Total recognised gains and losses since last annual report	20,209	1,440	**21,649**			

Reconciliation between statutory accounts and historic cost regulatory accounts for the year ended 31 March 2010

	Statutory accounts £000	**Regulatory accounts £000**	**Explanation**
Profit and loss account			
Operating profit	89,547	89,547	No difference
Profit before tax	51,834	51,834	No difference
Balance sheet			
Tangible fixed assets (NBV)	1,621,366	1,619,914	The difference of £1,452k is attributable to the renewals accrual as this is added to the fixed assets net book value in the regulatory accounts. This is in line with Regulatory Accounting Guidelines 3.06 as FRS 15 is not applied for infrastructure renewals accounting for regulatory accounting purposes.

CURRENT COST FINANCIAL STATEMENTS

Profit and loss account for appointed business for the year ended 31 March 2010

	Note	**2009/10 £000**	Restated 2008/09 £000
Turnover	3	**347,569**	327,395
Current cost operating costs	4	**(328,924)**	(316,045)
Current cost loss on disposal of fixed assets	3	**5**	(50)
Working capital adjustment	3,8	**4,313**	(292)
Current cost operating profit		**22,963**	(11,008)
Net interest payable		**(37,716)**	(20,142)
Financing adjustment	8	**25,217**	(1,044)
Current cost (loss)/profit before taxation		**10,464**	(10,178)
Taxation on (loss)/profit on ordinary activities:			
Deferred tax		**(14,273)**	(13,531)
Current cost loss attributable to Shareholder		**(3,809)**	(23,709)
Dividends		**(34,537)**	-
Current cost loss retained	7	**(38,346)**	(23,709)

Balance sheet for appointed business at 31 March 2010

	Note	**2009/10 £000**		Restated 2008/09 £000	
Fixed assets					
Tangible assets	*5*	7,389,297		6,951,369	
Third party contributions		(141,802)		(114,399)	
			7,247,495		6,836,970
Working capital	*6*	(91,609)		(96,959)	
Cash	*9*	349		3,554	
Short term deposits	*9*	10,000		19,000	
Infrastructure renewals prepayment/ (accrual)		1,452		91	
			(79,808)		(74,314)
Non operating assets and liabilities					
Non trade debtors		1,491		1,486	
Non trade creditors due within one year		(3,833)		(4,385)	
Investments		106		106	
Total non operating liabilities			**(2,236)**		(2,793)
Creditors: amounts falling due after more than one year					
Borrowings	*9*	(627,560)		(457,560)	
Other creditors		(106,136)		(110,808)	
			(733,696)		(568,368)
Provisions for liabilities and charges					
Deferred tax provision		(42,713)		(30,653)	
Other provisions		(32,884)		(20,638)	
			(75,597)		(51,291)
Pension assets			**2,286**		5,942
Net assets			**6,358,444**		6,146,146
Capital and reserves					
Called up share capital			**500,000**		500,000
Distributable reserve			**171,690**		171,690
Profit and loss account	*7*		**(93,045)**		(45,444)
Current cost reserves	*8*		**5,779,799**		5,519,900
Shareholder's funds			**6,358,444**		6,146,146

These financial statements were approved by the Board of Directors on 29 June 2010 and were signed on its behalf by:

Laurence MacKenzie
Chief Executive
29 June 2010

Reconciliation of movements in shareholder's funds for the year ended 31 March 2010

	2009/10	Restated 2008/09
	£000	£000
Loss for the financial year	**(3,809)**	(23,709)
Dividends on shares classified in shareholder's funds	**(34,537)**	-
Retained loss	**(38,346)**	(23,709)
Other recognized gains and losses relating to the year (net)	**(9,255)**	1,666
Profit and loss amount	**(47,601)**	(22,043)
Increase / (decrease) in current cost reserves	**259,899**	(21,862)
Net (reduction)/addition to shareholder's funds	**212,298**	(43,905)
Opening shareholder's funds (as previously stated)	**6,153,662**	6,196,840
Prior year adjustment (as explained in note 13)	**(7,516)**	(6,789)
Opening shareholder's funds (as restated)	**6,146,146**	6,190,051
Closing shareholder's funds	**6,358,444**	6,146,146

Cashflow statement for the year ended 31 March 2010

	Appointed business 2009/10 £000	**Non – Appointed business 2009/10 £000**	**Total 2009/10 £000**	Restated Appointed business 2008/09 £000	Restated Non-Appointed business 2008/09 £000	Restated Total 2008/09 £000
Net cash inflow from operating activities Note 11(a)	137,968	1,776	139,744	133,052	1,017	134,069
Returns on investments and servicing of finance						
Interest received	247	-	247	1,840	-	1,840
Interest paid	(26,905)	-	(26,905)	(18,012)	-	(18,012)
Interest element of finance lease	(11,325)	-	(11,325)	(4,193)	-	(4,193)
Net cash out flow from returns on investments and servicing of finance	(37,983)	-	(37,983)	(20,365)	-	(20,365)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	(213,359)	-	(213,359)	(226,011)	-	(226,011)
Grants and contributions received	6,514	-	6,514	6,270	-	6,270
Infrastructure renewals expenditure	(38,396)	-	(38,396)	(44,058)	-	(44,058)
Disposal of fixed assets	494	-	494	790	-	790
Net cash outflow from investing activities	(244,747)	-	(244,747)	(263,009)	-	(263,009)
Equity dividends paid to shareholders	(34,537)	(469)	(35,006)	(33,538)	(418)	(33,956)
Cash (outflow)/inflow before management of liquid resources and financing	(179,299)	1,307	(177,992)	(183,860)	599	(183,261)
Management of liquid resources	9,000	-	9,000	35,000	-	35,000
Cash inflow/(outflow) from management of liquid resources	9,000	-	9,000	35,000	-	35,000
Net cashflow before financing	(170,299)	1,307	(168,992)	(148,860)	599	(148,261)
Financing						
Loans advanced	170,000	-	170,000	150,000	-	150,000
Capital element of finance lease repayments	(2,906)	-	(2,906)	(430)	-	(430)
Net cash inflow from financing	167,094	-	167,094	149,570	-	149,570
Net (decrease) / increase in cash	(3,205)	1,307	(1,898)	710	599	1,309

1 Regulatory reporting

The regulatory accounts should be read in conjunction with the Operating and Financial Review ("OFR") on pages 1 to 43, for further understanding of the performance of the business.

Within the OFR, the Directors' report provides information on the Company's dividend policy on page 25 and on "Disclosure of Information to Auditors" on page 27.

The Directors' remuneration report is set on pages 40 to 42 and includes information on Directors' pay and standards of performance in accordance with Article 62 of the Water and Sewerage Services (NI) 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 2010.

2 Accounting policies

(a) Basis of preparation

The Regulatory Accounts have been prepared on such a basis as to comply with the requirements of the UR. These requirements mirror those of Ofwat, the economic regulator for the water and sewerage industry in England and Wales.

The Regulatory Accounts have been prepared in accordance with Condition F of the Instrument of Appointment of the Water and Sewerage Undertaker and the Ofwat Regulatory Accounting Guidelines (RAG) adopted by the UR and modified where required for conditions prevalent in Northern Ireland, the accounting policies set out in these notes and, in the case of the regulatory historic cost accounts, under the historical cost convention.

The Regulatory Accounts have been prepared on a going concern basis notwithstanding the net current liabilities. The Directors are content to adopt this approach for the following reasons:

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

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

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

- Cashflow projections indicate that the Company will be able to meet its liabilities as they fall due.

(b) General

The regulatory accounting policies are the same as those adopted in the statutory financial statements on pages 46 to 80, except for those set out below.

(c) Tangible fixed assets and depreciation

The value of tangible fixed assets at 1 April 2007 included in the current cost accounts are based on the closing balances included in the Water Service's audited accounts at 31 March 2007 prior to the application of the impairment adjustment. The current cost values in Water Service were based on an asset management plan which reported at 1 September 2001 and which was updated to include subsequent expenditure and indexed to reflect inflation. Assets with an open market value, including surplus land, were separately valued at 31 March 2007 and these values have been adopted at 1 April 2007.

The RAGs and any modifications issued by the UR, have been followed in the preparation of the current cost accounts.

NI Water plans to revalue its asset basis on a Modern Equivalent Asset Value (MEAV) basis, in accordance with the RAGs, as part of its asset management planning process. As agreed with the UR this was not carried out as part of PC10, but will be incorporated into work carried out within PC13.

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 and is defined as the annual accounting provision for expenditure on the renewal of infrastructure assets charged to the profit and loss account. It should reflect the Company's assessment of its medium to long term infrastructure renewals expenditure (IRE) needs.

The IRC for NI Water is based on the Company's assessment of the IRE over a 10 year period. This period comprises a five year historic analysis of IRE and a five year forecast of IRE. The historic analysis was undertaken by the predecessor organisation, NI Water Service, in 2001/2002 and extrapolated over the remaining four years. The extrapolation was necessary as NI Water Service did not capture IRE for these years – it did not have to apply full renewals accounting principles as an unregulated entity. The IRE five year forecast is based on the Strategic Business Plan prepared in 2006/07.

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

The IRE in 2009/10 is based on an analysis of capital expenditure on a project-by-project basis. This is the third year of full IRE reporting and the Directors are taking steps to address some uncertainties in the underlying systems used to allocate capital costs between IRE, infrastructure enhancement and maintenance non-infrastructure.

(d) Grants and other third party contributions

Grants, infrastructure and third party contributions include government grants, infrastructure charges, connection charges, requisitioning of watermains or sewers, sewer adoption fees and contributions from third parties. Grants and contributions for capital expenditure, other than infrastructure assets, are credited to a deferral account within creditors and are released to the profit and loss account evenly over the expected useful life of the relevant asset in accordance with the Companies Act 2006.

Grants, contributions and capital subsidy for capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with the Companies Act 2006 which requires grants and contributions to be shown as deferred income, but has been adopted in order to show a true and fair view, in the opinion of the Directors. While a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income.

(e) Real financial capital maintenance adjustments

These adjustments are made to historical cost operating profit in order to arrive at profit after the maintenance of financial capital in real terms:

- Working capital adjustment – this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock, less trade creditors; and
- Financing adjustment – this is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all assets and liabilities in the balance sheet apart from those included in working capital and excluding fixed assets, deferred taxation provision, index linked debt and dividends payable.

(f) Apportionment of costs between the appointed and non-appointed business activities

The non-appointed business relates mainly to septic tank emptying, vehicle maintenance services carried out on behalf of primarily DRD Roads Service and income associated with aerial masts erected on Company property. A reasonable proportion of operating and other costs have been apportioned to these activities based on turnover and assumptions on the costs incurred. The results from the non-appointed activities are shown in the historical cost financial statements and regulatory cashflow statements.

3 Analysis of current turnover and operating income

	Water services 2009/10 £000	Sewerage services 2009/10 £000	Total 2009/10 £000	Water services 2008/09 £000	Sewerage services 2008/09 £000	Total 2008/09 £000
Turnover						
Unmeasured – household	118,127	122,227	240,354	114,083	104,945	219,028
Unmeasured – non household	1,231	1,236	2,467	1,699	1,637	3,336
Total unmeasured	119,358	123,463	242,821	115,782	106,582	222,364
Measured – household	-	-	-	-	-	-
Measured – non household	44,301	29,241	73,542	39,768	36,965	76,733
Total measured	44,301	29,241	73,542	39,768	36,965	76,733
Trade effluent	-	4,669	4,669	-	4,712	4,712
Large user and special	5,594	-	5,594	5,352	-	5,352
Total trade effluent and large user special agreements	5,594	4,669	10,263	5,352	4,712	10,064
Rechargeable works	330	330	660	192	192	384
Other third party services	379	19,904	20,283	407	17,443	17,850
Total third party services	709	20,234	20,943	599	17,635	18,234
Total turnover	169,962	177,607	347,569	161,501	165,894	327,395

	Water services 2009/10 £000	Sewerage services 2009/10 £000	Total 2009/10 £000	Water services 2008/09 £000	Sewerage services 2008/09 £000	Total 2008/09 £000
Operating income and working capital adjustment for the appointed business						
Current cost profit/(loss) on disposal of fixed assets	120	(115)	5	(72)	22	(50)
Working capital adjustment	4,313	-	4,313	(292)	-	(292)

4a Analysis of operating costs and tangible fixed assets

	2009/10							
	Water services			Sewerage services				
	Resource and treatment	Distribution	Water services subtotal	Sewerage	Sewage treatment	Sludge treatment and disposal	Sewerage services subtotal	**Total**
	£000	£000	£000	£000	£000	£000	£000	**£000**
Direct costs								
Employment costs	3,234	10,480	13,714	3,496	3,975	1,904	9,375	**23,089**
Power	12,445	4,764	17,209	5,567	10,658	3,499	19,724	**36,933**
Hired and contracted services	1,991	5,410	7,401	7,392	1,743	9,965	19,100	**26,501**
Materials and consumables	3,810	1,000	4,810	254	681	1,258	2,193	**7,003**
Other direct costs	444	(134)	310	427	572	308	1,307	**1,617**
Total direct costs	21,924	21,520	43,444	17,136	17,629	16,934	51,699	**95,143**
General & support expenditure	8,029	11,282	19,311	9,535	11,512	6,217	27,264	46,575
Total functional expenditure	29,953	32,802	62,755	26,671	29,141	23,151	78,963	141,718
Business activities								
Customer services			8,197				10,361	18,558
Scientific services			1,332				1,681	3,013
Cost of regulation			1,233				1,558	2,791
Rates			6,937				7,507	14,444
Doubtful debts			648				463	1,111
Total operating expenditure less third party services			81,102				100,533	181,635
Services for third parties			204				8	212
Total PPP unitary charge			1,402				15,242	16,644
Total operating expenditure			82,708				115,783	198,491
Capital costs								
Infrastructure renewals charge			27,171				9,864	37,035
Current cost depreciation:								
Service activities	24,603	21,414	46,017	1,824	45,628	2,357	49,809	95,826
Business activities			94				282	376
Amortisation of grants			(1,137)				(1,667)	(2,804)
Total capital costs			72,145				58,288	130,433
Total operating costs			154,853				174,071	328,924
Analysis of tangible fixed assets*								
Service activities	775,114	2,807,519	3,582,633	2,676,489	1,087,910	39,275	3,803,674	7,386,307
Business activities			1,125				1,865	2,990
Total			3,583,758				3,805,539	7,389,297

* 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

	2008/09 Restated							
	Water services			Sewerage services				
	Resource and treatment	Distribution	Water services subtotal	Sewerage	Sewage treatment	Sludge treatment and disposal	Sewerage services subtotal	**Total**
	£000	£000	£000	£000	£000	£000	£000	**£000**
Direct costs								
Employment costs	9,263	22,317	31,580	12,058	10,504	2,684	25,246	**56,826**
Power	10,972	2,994	13,966	5,989	9,472	2,542	18,003	**31,969**
Hired and contracted services	5,159	6,580	11,739	10,001	5,456	11,173	26,630	**38,369**
Materials and consumables	4,822	1,804	6,626	1,035	1,520	1,219	3,774	**10,400**
Other direct costs	1,575	1,067	2,642	1,451	1,037	727	3,215	**5,857**
Total direct costs	**31,791**	**34,762**	**66,553**	**30,534**	**27,989**	**18,345**	**76,868**	**143,421**
General & support expenditure	3,645	5,265	8,910	1,890	1,730	1,135	4,755	**13,665**
Total functional expenditure	**35,436**	**40,027**	**75,463**	**32,424**	**29,719**	**19,480**	**81,623**	**157,086**
Business activities								
Customer services			7,930				8,943	**16,873**
Scientific services			1,382				1,559	**2,941**
Cost of regulation			1,602				1,806	**3,408**
Rates			6,656				5,845	**12,501**
Doubtful debts			3,225				-	**3,225**
Total operating expenditure less third party services			**96,258**				**99,776**	**196,034**
Services for third parties			952				-	**952**
Total PPP unitary charge			1,289				9,316	**10,605**
Total operating expenditure			**98,499**				**109,092**	**207,591**
Capital costs								
Infrastructure renewals charge			25,905				8,367	**34,272**
Current cost depreciation:								
service activities	16,769	15,371	32,140	1,798	38,828	3,790	44,416	**76,556**
business activities			73				173	**246**
Amortisation of grants			(1,117)				(1,503)	**(2,620)**
Total capital costs			**57,001**				**51,453**	**108,454**
Total operating costs			**155,500**				**160,545**	**316,045**
Analysis of tangible fixed assets*								
Service activities	736,682	2,667,115	3,403,797	2,388,216	1,111,833	44,224	3,544,273	6,948,070
Business activities			1,392				1,907	3,299
Total			**3,405,189**				**3,546,180**	**6,951,369**

* Asset values shown above are based on the valuation method described in note 2(c) to the Regulatory Accounts

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

All costs relating to business activities e.g. customer services, scientific services and other, were collated using the relevant cost centre from the General Ledger. The total expenditure attributable to these activities was apportioned to water and sewerage on the basis of the directly coded spend.

Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for 2009/10 in respect of infrastructure assets amounted to £8.2m (2008/09 £11.4m) on water services and £5.5m (2008/09 £6.05m) for sewerage services.

5 Analysis of Tangible Fixed Assets by Assets Type

Water Services	Specialised Operational Assets £000	Non - Specialised Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross replacement cost					
At 1 April 2009 (as originally stated)	787,256	7,760	2,648,726	26,768	**3,470,510**
Prior year adjustment	(93)	(112)	-	(2,858)	**(3,063)**
At 1 April 2009 (as restated)	787,163	7,648	2,648,726	23,910	**3,467,447**
RPI and other adjustments	32,979	345	118,885	948	**153,157**
Disposals	(32)	-	-	(503)	**(535)**
Additions	29,299	-	41,348	3,762	**74,409**
At 31 March 2010	**849,409**	**7,993**	**2,808,959**	**28,117**	**3,694,478**
Depreciation					
At 1 April 2009 (as originally stated)	(54,786)	(158)	-	(5,875)	**(60,819)**
Prior year adjustment	(666)	(197)	-	(577)	**(1,440)**
At 1 April 2009 (as restated)	(55,452)	(355)	-	(6,452)	**(62,259)**
RPI and other adjustments	(2,440)	(7)	-	(270)	**(2,717)**
Disposals	-	-	-	367	**367**
Charge for year	(43,099)	(82)	-	(2,930)	**(46,111)**
At 31 March 2010	**(100,991)**	**(444)**	**-**	**(9,285)**	**(110,720)**
Net book value at 31 March 2010	**748,418**	**7,549**	**2,808,959**	**18,832**	**3,583,758**
Net book value at 1 April 2009	731,711	7,293	2,648,726	17,458	3,405,188

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 2009 (as originally stated)	1,032,935	10,036	2,547,006	35,301	**3,625,278**
Prior year adjustment	(136)	(162)	-	(167)	**(465)**
At 1 April 2009 (as restated)	1,032,799	9,874	2,547,006	35,134	**3,624,813**
RPI and other adjustments	39,123	446	106,660	1,233	**147,462**
Disposals	(291)	-	-	(362)	**(653)**
Additions	97,960	-	64,933	2,799	**165,692**
At 31 March 2010	**1,169,591**	**10,320**	**2,718,599**	**38,804**	**3,937,314**
Depreciation					
At 1 April 2009 (as originally stated)	(70,798)	(210)	-	(5,076)	**(76,084)**
Prior year adjustment	(965)	(283)	-	(1,300)	**(2,548)**
At 1 April 2009 (as restated)	(71,763)	(493)	-	(6,376)	**(78,632)**
RPI and other adjustments	(3,152)	(9)	-	(223)	**(3,384)**
Disposals	44	-	-	288	**332**
Charge for year	(46,003)	(109)	-	(3,979)	**(50,091)**
At 31 March 2010	**(120,874)**	**(611)**	**-**	**(10,290)**	**(131,775)**
Net book value at 31 March 2010	**1,048,717**	**9,709**	**2,718,599**	**28,514**	**3,805,539**
Net book value at 1 April 2009	961,036	9,381	2,547,006	28,758	3,546,181

5 Analysis of Tangible Fixed Assets by Assets Type (continued)

Total Services	Specialised Operational Assets £000	Non - Specialised Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross replacement cost					
At 1 April 2009 (as originally stated)	1,820,191	17,796	5,195,732	62,069	**7,095,788**
Prior year adjustment	(229)	(274)	-	(3,025)	**(3,528)**
At 1 April 2009 (as restated)	1,819,962	17,522	5,195,732	59,044	**7,092,260**
RPI and other adjustments	72,102	791	225,545	2,181	**300,619**
Disposals	(323)	-	-	(865)	**(1,188)**
Additions	127,259	-	106,281	6,561	**240,101**
At 31 March 2010	2,019,000	18,313	5,527,558	66,921	**7,631,792**
Depreciation					
At 1 April 2009 (as originally stated)	(125,584)	(368)	-	(10,951)	**(136,903)**
Prior year adjustment	(1,631)	(480)	-	(1,877)	**(3,988)**
At 1 April 2009 (as restated)	(127,215)	(848)	-	(12,828)	**(140,891)**
RPI and other adjustments	(5,592)	(16)	-	(493)	**(6,101)**
Disposals	44	-	-	655	**699**
Charge for year	(89,102)	(191)	-	(6,909)	**(96,202)**
At 31 March 2010	(221,865)	(1,055)	-	(19,575)	**(242,495)**
Net book value at 31 March 2010	**1,797,135**	**17,258**	**5,527,558**	**47,346**	**7,389,297**
Net book value at 1 April 2009	1,692,747	16,674	5,195,732	46,216	6,951,369

5 Analysis of Tangible Fixed Assets by Assets Type (continued)

In the preparation of its Statutory Accounts the Company has followed common industry practice and adopted the infrastructure renewals accounting basis as required by FRS15 - Tangible Fixed Assets. However, for the purpose of the Regulatory Accounts FRS 15 is not applied for infrastructure renewals accounting. A reconciliation to the tangible fixed assets shown in the Statutory Accounts is set out below:

	Infrastructure Assets £000
Cost	
At 31 March 2010 per Regulatory Accounts	**5,527,558**
Less capital contributions	**(23,896)**
Adjustment to opening balance at 1 April 2009*	**(4,543,214)**
Infrastructure renewals expenditure capitalised in the year	**38,396**
At 31 March 2010 per Statutory Accounts	**998,844**
Depreciation	
At 31 March 2010 per Regulatory Accounts	**-**
Cumulative depreciation charge for infrastructure renewals expenditure	**(107,314)**
At 31 March 2010 per Statutory Accounts	**(107,314)**
Net book value	
At 31 March 2010 per Regulatory Accounts	**5,527,558**
Less capital contributions	**(23,896)**
Adjustment to opening balance at 1 April 2009*	**(4,543,214)**
Infrastructure renewals expenditure capitalised in the year	**38,396**
Accumulated depreciation charge for infrastructure renewals expenditure	**(107,314)**
At 31 March 2010 per Statutory Accounts	**891,530**
Infrastructure renewals prepayment	
At 31 March 2010 per Regulatory Accounts	**1,452**
Less infrastructure renewals prepayment	**(1,452)**
At 31 March 2010 per Statutory Accounts	**-**

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

6 Working Capital

	2009/10 £000	2008/09 £000
Stocks	**1,865**	1,896
Trade Debtors		
− measured household	**-**	-
− unmeasured household	**-**	-
− measured non-household	**13,587**	6,991
− unmeasured non-household	**296**	584
Other trade debtors	**2,907**	710
Measured income accrual	**16,197**	12,594
Prepayments and other debtors	**6,407**	7,341
Trade Creditors	**(14,989)**	(18,030)
Deferred Income – customer advance receipts	**(1,677)**	(1,509)
Capital Creditors	**(72,643)**	(64,335)
Accruals and other creditors	**(43,559)**	(43,201)
	(91,609)	(96,959)

7 Profit and Loss Reserve

	2009/10 £000	Restated 2008/09 £000
At 1 April (as originally stated)	**(39,057)**	(17,632)
Prior year adjustment	**(6,387)**	(5,769)
At 1 April 2009 (as restated)	**(45,444)**	(23,401)
Retained current loss for year	**(38,346)**	(23,709)
FRS 17 actuarial (loss) / gain	**(12,855)**	2,314
Deferred tax on actuarial (loss) / gain	**3,600**	(648)
At 31 March 2010	**(93,045)**	(45,444)

8 Movement on Current Cost Reserve

	2009/10 £000	Restated 2008/09 £000
At 1 April (as originally stated)	**5,521,029**	5,542,782
Prior year adjustment	**(1,129)**	(1,020)
At 1 April (as restated)	**5,519,900**	5,541,762
RPI adjustments:		
Fixed assets	**294,257**	(23,689)
Grants and third party contributions	**(5,089)**	347
Current cost loss on disposal of fixed assets	**261**	144
Working capital	**(4,313)**	292
Financing	**(25,217)**	1,044
At 31 March 2010	**5,779,799**	5,519,900

9 Net Debt Analysis

Included within creditors falling due within one year is net debt as follows:	**Fixed rate 2009/10 £000**	**Total 2009/10 £000**	Fixed rate 2008/09 £000	Total 2008/09 £000
Maturity Profile				
Less than one year	**(2,313)**	**(2,313)**	(2,888)	(2,888)
Between one and two years	**(6,235)**	**(6,235)**	(6,387)	(6,387)
Between two and five years	**(9,427)**	**(9,427)**	(9,657)	(9,657)
Between five and twenty years	**(714,561)**	**(714,561)**	(546,687)	(546,687)
More than twenty years	**(3,142)**	**(3,142)**	(3,219)	(3,219)
Total borrowings	**(735,678)**	**(735,678)**	(568,838)	(568,838)
Cash	**349**	**349**	3,554	3,554
Short term deposits	**10,000**	**10,000**	19,000	19,000
Net debt at 31 March 2010	**(725,329)**	**(725,329)**	(546,284)	(546,284)

10 Reconciliation of historical cost profit to current cost loss

	2009/10 £000	2008/09 £000
Historical cost operating profit per regulatory accounts (as originally stated)	**2,285**	35,523
Prior year adjustment	**-**	(618)
Historical cost operating profit per regulatory accounts (as restated)	**2,285**	34,905
Less non appointed activities	**(971)**	(932)
Sub total historical cost	**1,314**	33,973
Less difference in loss on disposals	**(258)**	(144)
Working capital adjustment	**4,313**	(292)
Financing adjustment	**25,217**	(1,044)
Add back historical cost depreciation including infrastructure renewals charge	**62,091**	52,657
Less current cost depreciation	**(96,202)**	(76,802)
Less infrastructure renewals charge	**(37,035)**	(34,272)
Add back historical cost amortisation of grant reserve	**(590)**	(407)
Less current cost amortization of grant reserve	**2,804**	2,622
Current cost loss	**(38,346)**	(23,709)

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

	2009/10 **£000**	2008/09 £000
Current cost operating profit	**22,963**	11,008
Working capital adjustment	**(4,313)**	292
Movement in working capital	**(13,701)**	7,258
Current cost depreciation	**96,202**	76,802
Current cost loss on sale of fixed assets	**(5)**	50
Infrastructure renewals charge	**37,035**	34,272
Other non-cash items		
Amortisation of deferred grants and contributions	**(2,804)**	(2,621)
PFI residual asset credits	**(2,164)**	(1,520)
(Excess) / shortfall of pension payments over FRS17 charge	**(7,491)**	2,004
Movement in provisions and creditors > 1 year	**12,246**	5,507
Net cash inflow from operating activities	**137,968**	133,052

11b Analysis of net debt

	1 April 2009 £000	**Cashflows £000**	**Non cash changes £000**	**31 March 2010 £000**
Cash at bank and in hand	3,554	(3,205)	-	349
Deposits and investments	19,000	(9,000)	-	10,000
	22,554	(12,205)	-	10,349
Debt due within one year	(2,888)	-	575	(2,313)
Debt due after one year (incl PFI liability)	(565,950)	(167,094)	(321)	(733,365)
Total	**(546,284)**	**(179,299)**	**254**	**(725,329)**

12 Regulatory capital value ("RCV")

	2009/10	2008/09
	£000	£000
Revised opening balance at 1 April 2009	**1,247,833**	999,725
Capital expenditure*	**215,978**	238,138
Infrastructure renewals expenditure	**38,396**	44,058
Infrastructure renewals charge	**(37,035)**	(34,272)
Grants and contributions	**(1,221)**	(5,747)
Depreciation***	**(42,407)**	(47,216)
Closing RCV	**1,421,544**	1,194,686
Average RCV	**1,334,689**	1,097,206
Opening RCV		
At 1 April 2009	**1,194,686**	984,814
adjust 2008-2009 RCV for application of broad equivalence*	**-**	18,696
Revised opening balance at 1 April 2009	**1,194,686**	1,003,510
Indexed for 2009/10	**53,147**	(3,785)
Opening RCV	**1,247,833**	999,725

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

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

** An adjustment has been made to the opening RCV at 1 April 2008 to incorporate the use of the regulatory principle of 'broad equivalence'. Broad equivalence limits the level of current cost depreciation (CCD) that is deducted within the RCV calculation to the amount of expenditure during the year on the base maintenance for non infrastructure assets. This principle was not applied in the 2007/08 regulatory accounts and the adjustment of £18,696k gives an opening balance of £1,003,510k which would have been the closing RCV at 31 March 2008 if broad equivalence had been adopted. The application of this principle affects the RCV only and it does not impact on the CCD charged to the profit and loss account.

*** Depreciation has been calculated on a broad equivalence basis and as such is different to the depreciation balance disclosed in note 4.

13 Prior year adjustment

A prior year adjustment has been recognised in the current year in relation to the valuation of land and buildings. Through work undertaken as part of the Company's price control review a number of additional sites were identified where a decision had been taken in prior years to decommission the site at a future date. As a result adjustments were required to accelerate the depreciation on the sites or impair the asset from the date of the decision to decommission to the decommissioning date to reflect residual value at that date. As a result the following prior year adjustment has been recognised in the financial statements.

The effect of the correction decreased the reported profit for the year ended 31 March 2009 by £618,000. In addition the previously reported profit and loss account at 1 April 2008 was decreased by £5,769,000.

The effect of the corrections on the Company's historic cost balance sheet at 31 March 2009 was as follows:

	As previously stated £000	Effect £000	**As restated £000**
Fixed assets	1,435,496	(6,387)	**1,429,109**
Profit and loss account	22,051	(5,769)	**16,282**
Total recognised gains and losses for the year	37,189	(618)	**36,571**
	59,240	(6,387)	**52,853**

The effect of the correction decreased the current cost profit for the year ended 31 March 2009 by £618,000. In addition, the previously reported profit and loss account at 1 April 2008 was decreased by £5,769,000 and the current cost reserve reduced by £1,129,000.

The effect of the corrections on the Company's current cost balance sheet at 31 March 2009 was follows:

	As previously stated £000	Effect £000	**As restated £000**
Fixed assets	6,958,885	(7,516)	**6,951,369**
Profit and loss account	(17,632)	(5,769)	**(23,401)**
Total recognised gains and losses for the year	(21,425)	(618)	**(22,043)**
	(39,057)	(6,387)	**(45,444)**
Opening current cost reserves	5,521,029	(1,129)	**5,519,900**

ANNEX A - LISTING OF KEY PERFORMANCE INDICATORS (KPIs)

	KPI	Note	Target 2009/10	Actual 2009/10	Target 2010/11
	CUSTOMERS				
1	**Supply interruptions (H) (DG3)** - number of properties experiencing unplanned and unwarned interruptions (expressed as a percentage of households) in excess of:				
	6 hours	1	1.000	1.299	1.000
	12 hours		0.150	0.494	0.222
	24 hours		0.010	0.287	0.010
2	**Response to billing Contacts (DG6)** - number of billing contacts answered within 5 working days as % of total billing contacts (%)		98.00	99.86	99.90
3	**Response to written complaints (H) (DG7)** - no. of written complaints answered within ten days as a % of total written complaints (%)		98.00	98.06	98.50
4	**Billing of Metered Customers (DG8)** - the percentage of customers receiving bills with metered accounts, who during the year received at least one bill based on a company or customer meter reading (%)	2	95.00	92.26	95.00
5	**Ease of telephone contact (H) (DG9 old)** - percentage of customer calls answered during business hours (8am to 8pm Monday to Friday, 8am to 6pm Saturday and 10am to 6pm Sunday) within 30 seconds (%)	3	98.00	96.68	n/a
6	**Ease of telephone contact (DG9 – new)** - % of calls not abandoned	3	99.80	97.42	99.00
	- % of calls not all lines busy		100.0	100.0	99.90
	- customer satisfaction (score out of 5)		4.6	4.6	4.65
7	**Inadequate Pressure (DG2)** - number of properties at risk of receiving pressure below reference level of 10 metres head at a flow of 9 litres per minute.		#	#	#
8	**Sewer Flooding (DG5) – overload**. Number of properties affected by an incident of internal sewage flooding caused by overload of a sewer (also termed hydraulic incapacity) excluding those incidents resulting from severe weather.	4	#	#	3 (provisional full year target)

9	**Sewer flooding (DG5) – other causes**. Number of properties affected by an incident of internal sewage flooding caused by equipment failure in, blockage or collapse of, a sewer (also termed 'other causes')	4	#	#	23 (provisional full year target)
10	**Sewer Flooding (DG5) – 'at risk'**. Number of properties considered to be at risk of flooding by sewage, caused by overload, more frequently than once in 10 years		#	#	#
	CASH				
11	**Leakage (H)** - reduction in overall leakage (million litres per day)	5	176.93	186.86	173.00
12	**Operating margin** excluding exceptionals (%) - agreed to 2010/11 budget and operating plan.	6	26	25.5	27.4
13	**Comparative operating cost efficiency (H)** – expressed in £m from a 2003/4 base	7	53.8	Note 7	#
14	**Comparative capital efficiency (H)** – expressed as a percentage of total capital expenditure (%)	7	17	Note 7	#
15	**Billing**				
	(a) percentage of measured bills issued within 5 working days of a meter reading excluding any exception readings that require investigation	8	#	#	#
	(b) percentage of measured bills issued within 5 working days of a meter reading including any exception readings needing investigation		#	#	#
16	**Days sales outstanding** – Average number of days' sales outstanding				
	a) Measured (Days' sales outstanding)	9	76	132	91
	b) Unmeasured (Debtor Days)		58	73	76
	PEOPLE				
17	**Health and safety (H)** – reduction in the number of 'lost day accidents' based on the previous three year average (number)		12	11	10
18	**Manpower numbers (H)** – number of posts	10	1382.5	1,369	1,289
19	**Staff attendance (H)** (%)		95.7	96.8	96.7
20	**Staff satisfaction engagement** – score out of 100	11	3.66	Note 10	#

	KPI	Note	Target 2009**	Actual 2009**	Target 2010**
	COMPLIANCE				
21	**Drinking water quality (H)** - Mean zonal compliance (%)		99.65	99.74	99.70
22	**Operational Performance Indicator** (Turbidity, Iron and Manganese) (%)	12	99.10	98.90	99.10
23	**Wastewater quality (H)** - wastewater treatment works serving greater than 250 population equivalent achieving compliance with Water Order Consents expressed as a				
	(a) percentage of works		87	88	85.0
	(b) percentage of population equivalent	13	93.5	91.4	94.9
24	**Wastewater Treatment Works passing Urban Waste Water Treatment Directive numeric consents** (%)		93	93	90
25	**Pollution incidents (H)** (high/ medium) – number of pollution incidents attributed to N.I. Water		56	55	54
26	**Capex issues and initiatives** - completion of schemes costing over £250k, scheduled to start in the Capital Works Programme (%)		90	96.39	90

Notes to table:

1. NI Water under-performed against KPI targets 1a, 1b and 1c – numbers of properties experiencing unplanned and unwarned interruptions (expressed as a percentage of connected properties) in excess of 6, 12 and 24 hours. The performance of each of these targets was severely hampered by the freezing weather in December and January as well as the heavy snowfall at the end of March.

2. DG8 is an overall annual target based on at least one company read per year. Non compliance with the target can be mainly attributed to the loss of experienced meter reading staff in March 2009. An increased focus by management, reorganisation of responsibilities and the introduction of meter location aids will help to improve compliance with the target in 2010/11.

3. The freezing weather in December 2009 and January 2010 led to a marked increase in the number of calls made to NI Water. This increase led to a drop in the performance against this target. Other than this the performance for target 5 would have been circa 98.34%.

4. Further work to accelerate DG5 is planned. The number of uninvestigated / undetermined sewer flooding records currently stands at Internal: 0 and External: 42,790. 3,920 ***internal*** flooding records have been determined with 745 of these being DG5 Reportable on the 1 in 10 years register. 742 of these records are from historical records were the robustness of the quality of the data is questionable.
   1,839 ***external*** flooding records have been determined with 527 of these being DG5. The above figures are provisional and end of year totals will be confirmed by the end of April 2010. The aim was to have 100% of internal records investigated and determined by October 2008, this was achieved and work has commenced on the investigating and determining of external flooding records.

5. The failure of the leakage target is a direct result of the prolonged cold spell that dominated late December and much of January. This target had been on track for achievement in December. Whilst official sources suggest that this was the coldest winter in 50 years, Leakage Function continue to assess the implications of the incident in a bid to provide long term strategies to address it.

6. The failure of the operating margin target was mainly attributable to the low income compared to budget, although a large amount of this was offset by cost reductions that were attained during the year.

7. Efficiencies are expressed in 2006/07 prices. The methodology for measurement of the opex and capex efficiencies is being developed in conjunction with the Shareholder and the UR. The targets have been

recorded as 'on track for achievement' on the basis that the efficiencies have been deducted from the 2009/10 budget.

8. Reporting details have not yet been made available from Echo. Billing & Revenue Section have requested the report and are monitoring developments.

9. Billing and Revenue Section are working with the service providers Echo to improve cash receipts and targets, and plans are in place to tackle aged and legacy debt which have improved collection performance. Low billing and the billing of old test meters were contributors to the increase in debtor days.

10. On 31 March 2010 staff numbers totalled 1,427, however 58 employees left NI Water on this date giving a closing figure of 1,369.

11. This target was under construction following the development of a new staff satisfaction survey. Target to be set in 2010/11.

12. The random nature of compliance monitoring for iron at the customer tap has contributed to the variability of OPITIM over the SBP period. Every exceedance has been investigated. OPITIM was developed to assist in monitoring distribution systems in England and Wales. NI Water's Mains Rehabilitation Programme is scheduled to run for the next 15 years and the measure is therefore less robust when applied to Northern Ireland.

13. Failure mainly due to failings at Newry and Moygashel WwTWs. However, the performance is still an improvement on the previous year.

Key to table:

Achieved
Not achieved

- not measured / no target
* - target set on financial year basis in line with targets 1 to 20
** - targets set and measured on a calendar year basis
H - headline key performance indicator

ANNEX B - CONTRACTS WITHOUT REQUIRED DRD APPROVAL OR REPRESENTING A POTENTIAL OJEU / UTILITIES CONTRACTS REGULATIONS BREACH

Nature of goods / services supplied	Description of Irregularity	2007/08 £	2008/09 £	2009/10 £	Single Tender Action (STA) > £250k without DRD approval	Potential OJEU / Utilities Contracts Regs breach
Engineering and project management services	Unapproved contract scope and period extension	937,358	905,936	973,877		✔
Various suppliers - Minor Civil Engineering Works	Unapproved contract period extension	1,344,205	1,274,300	151,208		✔
Water rehabilitation programme / zonal studies	Unapproved contract period extension	-	1,271,479	1,366,264		✔
Recruitment of temp staff	Unapproved contract period extension	794,792	1,541,389	42,181		✔
Various suppliers - Light Mechanical maintenance, fabrication and repair work	Unapproved contract period extension	-	1,196,623	479,184		✔
Staff substitution	Represent 2 separate STAs over £250k	302,000	303,948	217,204	✔	✔
Engineering services	Unapproved contract period extension	591,979	501,661	144,059		✔
Various suppliers - supply, delivery, installation and repair of submersible pumps	Unapproved contract period extension	657,151	-	-		✔

Nature of goods / services supplied	Description of Irregularity	2007/08 £	2008/09 £	2009/10 £	Single Tender Action (STA) > £250k without DRD approval	Potential OJEU / Utilities Contracts Regs breach
Provision of security	Unapproved contract period extension	-	293,434	360,721		✔
Metering related services	Unapproved contract period extension.	-	-	647,357		✔
HR Resourcing Partner	Unapproved STA	300,349	227,850	-	✔	✔
Various suppliers - collection, transportatio n and disposal of controlled waste by Skips	Unapproved contract period extension	393,290	90,220	-		✔
Provision of technology	Unapproved period contract extension.	235,821	205,264	-		✔
Provision of technology	Unapproved period contract extension. Two contract extensions forthe year to March 2008 and March 2009 were outside of the permitted contract period terms and value exceeds OJEU threshold.	235,821	205,264	-		✔
Wastewater, M&E - parts	Unapproved STA.	147,718	178,593	102,030	✔	
Various propietary machinery and parts for M&E, E&P and Wastewater	Unapproved STA.	35,046	169,814	198,283	✔	

Nature of goods / services supplied	Description of Irregularity	2007/08 £	2008/09 £	2009/10 £	Single Tender Action (STA) > £250k without DRD approval	Potential OJEU / Utilities Contracts Regs breach
Claims handling support	Unapproved STA.	145,500	216,318	-	✔	✔
Legal services	Unapproved contract period extension.	-	-	347,161		✔
Resourcing - staff substitution	Unapproved contract period extension.	94,974	177,692	57,283		✔
IT helpdesk support, staff substitution	Unapproved STA.	171,930	125,700	-	✔	✔
Interim Head of Function	Unapproved STA.	112,315	156,492	3,625	✔	
Proprietary product: M&E and wastewater, special parts	Unapproved STA.	54,997	157,579	59,313	✔	
Hire of mobile decanter for deployment of incinerator	Unapproved STA.	-	77,866	192,472	✔	
Resourcing - staff substitution program management support	Unapproved STA.	136,205	116,613		✔	
Total		6,455,630	9,188,771	5,342,223		

Notes

(i) A number of these items may represent a potential breach of OJEU and / or Utilities Contracts Regulations. These include contract extensions outside of the permitted contract period terms; values exceeding OJEU thresholds; not providing "part b" service requirements for notice of award on OJEU; and potential technical breaches such as failures to publish a contract award notice on OJEU.

(ii) The above includes payments relating to external Departmental DRD approval requirements as defined in the Governance Letter between DRD and NI Water or the Utilities Contracts Regulations.

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