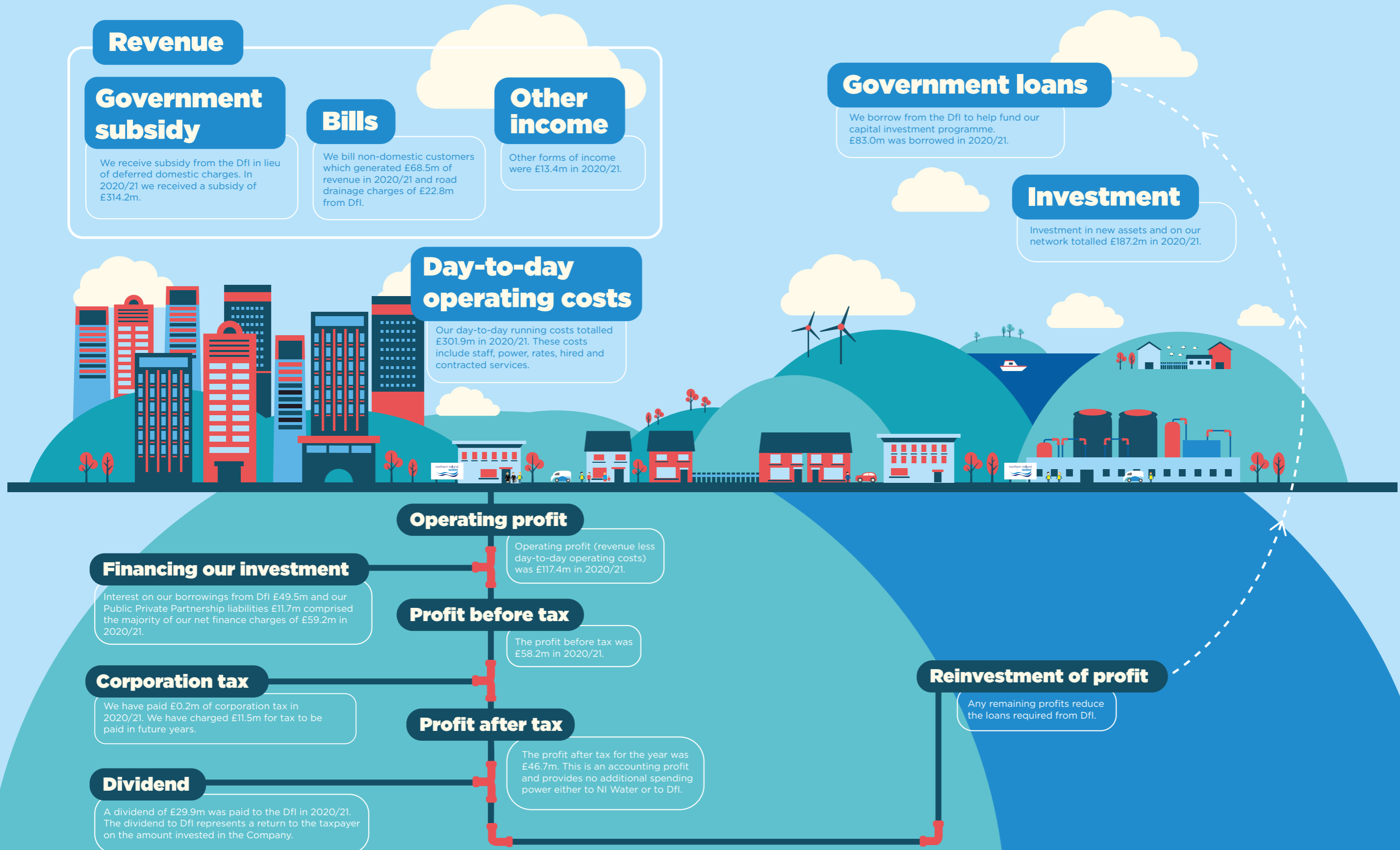


# Our finances explained



## Financial performance

NI Water is required to prepare two sets of accounts to report on financial performance:

- Statutory Group Accounts prepared in accordance with international accounting standards in conformity with the requirements of Companies Act 2006 (“Adopted IFRS”) covering NI Water Limited (both our appointed (regulated) and non-appointed (non-regulated) businesses) and our subsidiaries; and
- Regulatory Accounts for NI Water Limited for our appointed (regulated) business prepared under the Regulatory Accounting Guidelines issued by the Utility Regulator.

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

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

Pages 130 to 206  
Read our Statutory Accounts.  
The Regulatory Accounts are published separately.

See the latest Regulatory accounts at:  
<https://www.niwater.com/publications/>

In November 2017 NI Water Limited acquired Kelda Water Services’ holdings in a number of companies which are contracted to provide bulk drinking water supplies under a Public Private Partnership arrangement. Further information on the Group can be found at Note A5 to the Statutory Accounts.

The financial performance section refers to NI Water (the Group) unless otherwise indicated.

The £46.7m profit after tax for the year is an accounting profit and provides no additional spending power either to NI Water or to DfI.

## Consolidated Statement of Comprehensive Income

Our Consolidated Statement of Comprehensive Income (SOCl) is presented on page 134 is summarised below.

### Summary Consolidated Statement of Comprehensive Income

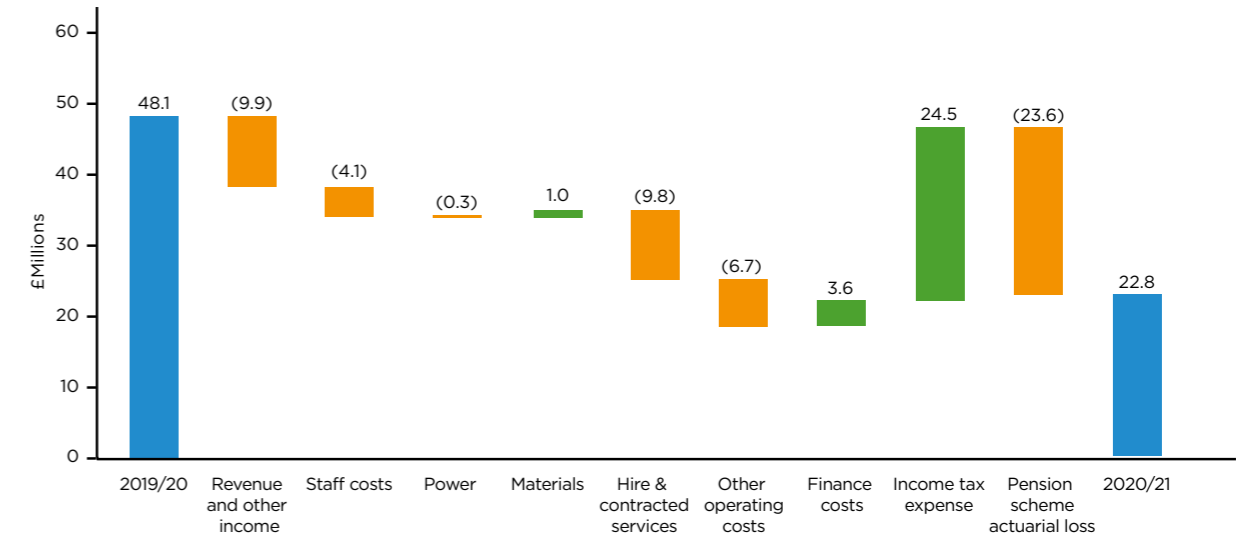
	Year to 31 March 2021 £m	Year to 31 March 2020 £m
<b>Revenue</b>	<b>418.9</b>	429.1
Results from operating activities	<b>117.4</b>	147.3
Net finance charges	<b>(59.2)</b>	(62.8)
<b>Profit before tax</b>	<b>58.2</b>	84.5
Income tax expense	<b>(11.5)</b>	(36.1)
<b>Profit for the year</b>	<b>46.7</b>	48.4
Other comprehensive expenditure, net of income tax	<b>(23.9)</b>	(0.3)
<b>Total comprehensive income for the period</b>	<b>22.8</b>	48.1

Revenue has been stated excluding the value of adopted assets (£40.7m) (2019/20: £46.7m) following the adoption of IFRS 15 “Revenue from Contracts with Customers” in 2018/19. It is considered that the adoption of assets creates a long term obligation to maintain the related assets and therefore

the revenue should be spread over the life of the assets through a deferred credit release (£3.5m) (2019/20: £3.3m).

A reduction of £2.0m (2020: £0.8m) to Revenue was made to take account of the estimated impact of COVID-19 on our billed customers.

## Movement in total consolidated comprehensive income for the period



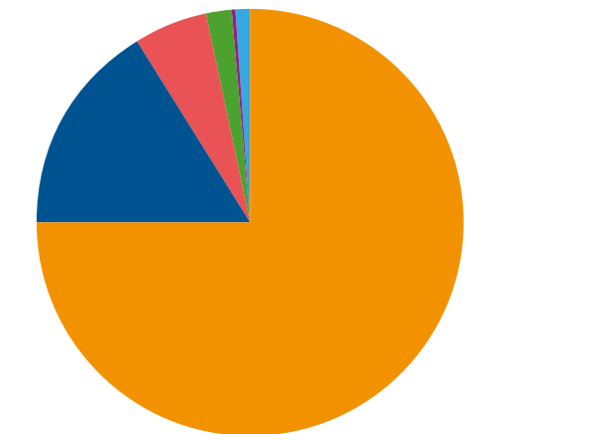
## Revenue

Domestic consumers are not charged directly for water and wastewater services. As a result, NI Water is dependent on Government subsidy for around 75% of its total revenue.

The customer subsidy from Government covered the full domestic charge and this arrangement will remain in place until 2022.

Revenue was £418.9m for the year to 31 March 2021 (2020: £429.1m). Included in revenue was £337.0m (2020: £332.5m) received from DfI, being subsidy of £314.2m (2020: £309.9m) and road drainage charges of £22.8m (2020: £22.6m). All the revenue was in relation to NI Water Limited as subsidiary revenue was all within the Group.

## Sources of revenue 2020/21 (£m)



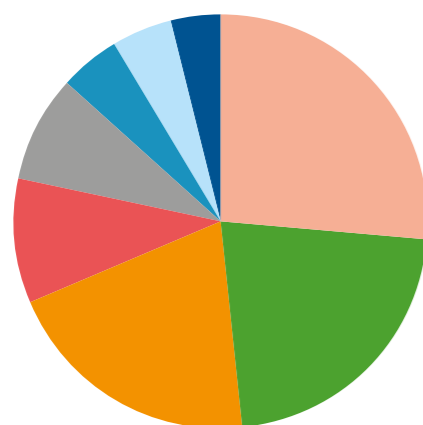
- Customer subsidy from DfI 314.2
- Customer income 68.5
- Road drainage from DfI 22.8
- Connection and infrastructure charges 8.2
- Other third party contributions 1.7
- Transfers of assets from customers 3.5

See Statutory Accounts Note C1.

## Operating activities

Operating expenses in 2020/21 of £301.9m (2020: £282.0m) increased from last year. The increase primarily resulted from higher hire and contractor costs arising largely due to COVID-19, higher staff costs and higher depreciation costs as a result of the increased asset base. Results from operating activities before interest for the year was £117.4m (2020: £147.3m).

### Operating expenses 2020/21 (£m)



- Depreciation: 88.3
- Staff costs: 73.7
- Hire and contracted services: 67.2
- Power: 32.5
- Rates: 28.3
- Own work capitalised: (16.0)
- Raw materials and consumables: 15.1
- Other operating expenses: 12.8

NI Water is one of the largest users of electricity in Northern Ireland. We spent around £32.5m on power in 2020/21.

## Finance income and costs

The net finance costs are primarily due to interest on our borrowings of £49.5m (2020: £50.0m); our Public Private Partnership (PPP) liabilities of £11.7m (2020: £12.2m) and net finance costs on the pension fund of £0.6m (2020: £0.7m). This was partly offset by £2.1m (2020: £nil) fair value increase in the value of financial liabilities and fair value impairment of senior loan debt and bank interest received of £0.5m (2020: £0.5m). See Statutory Accounts Note B2.

## Taxation

The tax charge for the year was £11.5m (2020: £36.1m) for which payment is deferred to future years. The effective tax rate for the year to 31 March 2021 was 19.8% (2020: 42.6%). The decrease from 2020 is largely due to the increase in the rate of corporation tax by 2% to 19% experienced in 2019/20. See Statutory Accounts Note F1.

## Pension scheme actuarial loss

In 2020/21 there was an actuarial loss of £24.0m (2020: £0.3m loss). See page 94 and Statutory Accounts Note E2 and G3.

## Distributions

The Board will consider a proposal to declare a dividend of £31.2m in July 2021 (2020: £29.9m). See Statutory Accounts Note B3.

The dividend to DfI represents a return to the taxpayer on the amount invested in the Company.

## Capital structure

The Consolidated Statement of Financial Position (SOFP) at 31 March 2021 as presented on page 132 is summarised below.

Total assets increased by 4.6% to £3,515.0m (2020: £3,359.1m).

Our net debt<sup>1</sup> figure was £1,416.9m at 31 March 2021 (2020: £1,370.1m).

Gearing (the ratio of net debt to equity and net debt) was 56.0% (2020: 55.0%).

### Summary Consolidated Statement of Financial Position

	At 31 March 2021 £m	At 31 March 2020 £m
Total non-current assets	<b>3,437.8</b>	3,298.1
Total current assets	<b>77.2</b>	61.0
<b>Total Assets</b>	<b>3,515.0</b>	3,359.1
<b>Equity</b>	<b>1,115.2</b>	1,122.3
Total non-current liabilities	<b>2,243.7</b>	2,106.2
Total current liabilities	<b>156.1</b>	130.6
<b>Total liabilities</b>	<b>2,399.8</b>	2,236.8
<b>Total equity and liabilities at 31 March</b>	<b>3,515.0</b>	3,359.1

## Liquidity

Operating activities generated a net cash inflow of £200.7m (2020: £235.3m). Net cash outflows of £159.5m (2020: £179.7m) related to investing activities. Net financing activities created a cash outflow of £16.4m (2020: £59.5m).

Our working capital requirements are met from a committed working capital facility of £20m and from available positive cash balances.

Interest is accrued on the working capital facility at floating interest rates based on London Inter-bank Offered Rates (LIBOR).

Investing activities included the acquisition of property, plant and equipment of £170.9m (2020: £186.1m), proceeds from the sale of property, plant and equipment of £0.3m (2020: £1.5m), interest received of £nil (2020: £0.1m) and grants received of £11.1m (2020: £4.8m).

Working capital represents the funds available for day-to-day operations. It includes inventories, trade receivables and trade payables.

<sup>1</sup> Refer to Notes A8 and B4 in the Statutory Accounts. Net debt consists of loans from DfI of £1,269.6m (2020: £1,186.6m), external loans relating to subsidiaries of £72.3m (2020: £76.8m), derivative financial instruments of £8.2m (2020: £10.4m); and finance leases of £106.4m (on consolidation Alpha finance lease excluded) (2020: £111.2m) less cash and cash equivalents of £39.6m (including £13.4m from consolidated entities), (2020: £14.9m).

### Pension funding

The pension scheme was valued at a liability of £62.6m at 31 March 2021 (2020: liability of £42.5m). This was made up of a total market value of assets of £293.6m (2020: £234.0m) less actuarial value of liabilities £356.2m (2020: £276.5m). The increase in the net liability arises primarily due to the incorporation of the 31 March 2020 Actuarial Triennial Valuation data; and a reduction in the discount rate assumption combined with an increase in inflation assumptions. This was partially offset by the reduction in liabilities due to the change in demographic assumption derivation. See Statutory Notes E2 and G3.

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

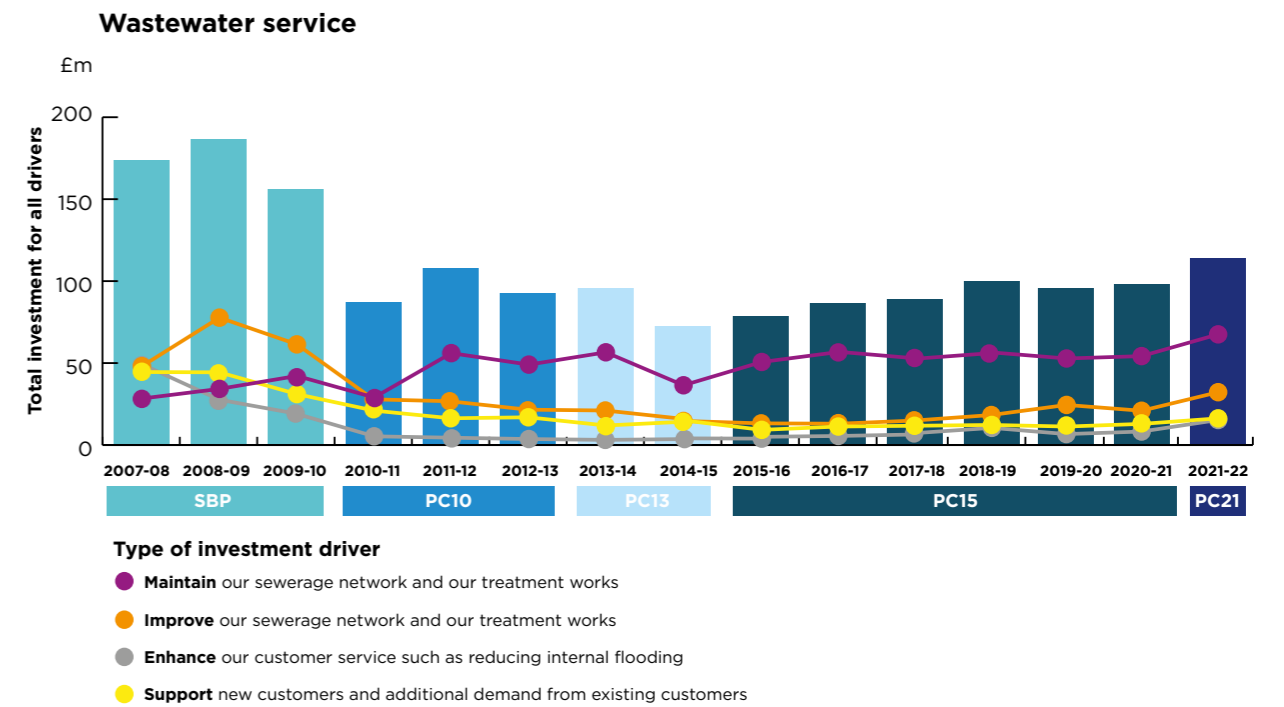
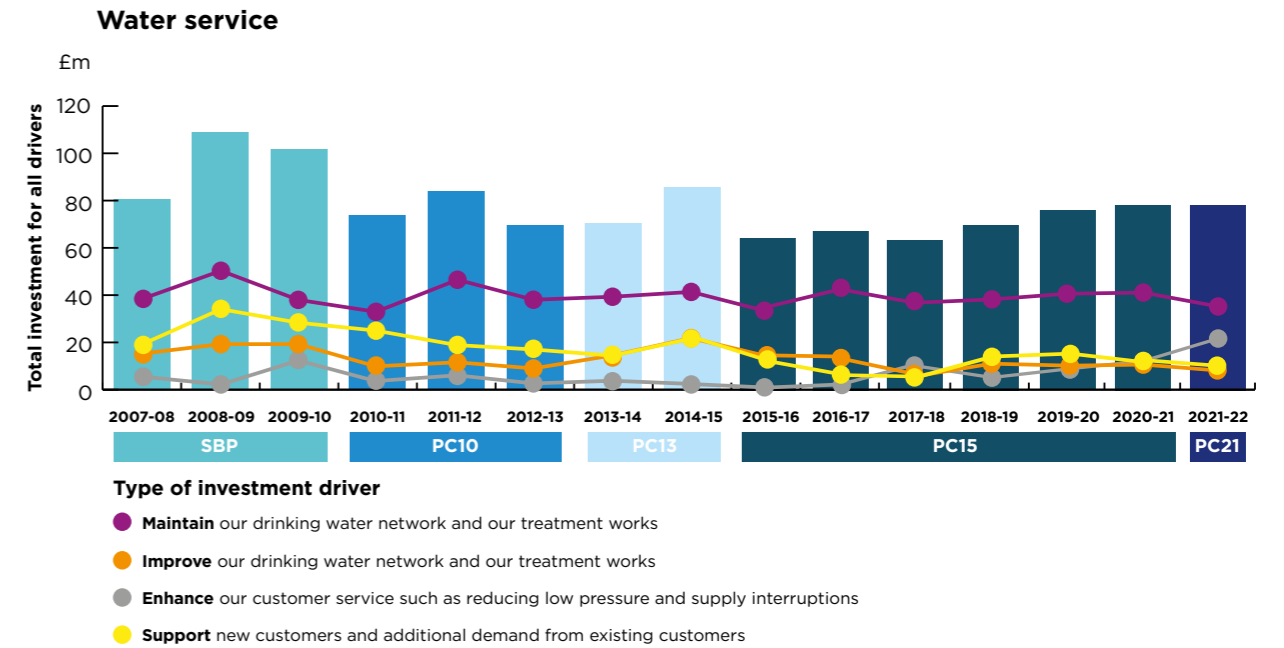
### Investing in our water and wastewater infrastructure

We have invested £2.6bn in Northern Ireland's water and wastewater infrastructure since our formation in 2007/08.

Around £177m of capital investment was delivered during 2020/21. £97m was invested in maintaining the current assets and a further £81m was invested to deliver quality enhancements, improve service and accommodate growth. Investment of £215m is planned for 2021/22.

Investment in 2020/21 included the completion of three wastewater treatment works, remediation of one unsatisfactory intermittent discharges and laying approximately 104km of new, renewed and relined water mains.

### Investment analysed by investment driver



This Strategic Report was approved by the Board of Directors on 23 June 2021 and signed on its behalf by Mark Ellesmere, Company Secretary.

Mark Ellesmere  
Company Secretary  
23 June 2021