Dalriada Water Limited

Annual report and financial statements
Registered number NI050161
Year ended 31 March 2018

Contents

Directors and advisers

Directors

R Larkin
S Venning

Company secretary

M Ellesmere (appointed 20 November 2017)

Independent auditors

KPMG
Chartered Accountants and Statutory Auditors
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

Registered office

Dunore Point Water Treatment Works
9 Dunore Road
Aldergrove
Crumlin
Co. Antrim
BT29 4DZ

Bankers

Barclays Bank plc
Donegall House
7 Donegall Square North
Belfast
BT1 5GB

Strategic report

The directors present their strategic report for the year ended 31 March 2018.

Principal activities and review of business

On 30 May 2006 Dalriada Water Limited ('the Company') entered into a Public Private Partnership (PPP) concession agreement with the Northern Ireland Water Service, an executive agency of the Department for Regional Development to deliver Project Alpha - a project to design, build and finance four clean water treatment works around Lough Neagh, and to operate and maintain these works over a 25 year period. The Authority has subsequently been incorporated as a Government Company (GoCo) and is now referred to as Northern Ireland Water (NIW). In accordance with the concession agreement, Dalriada Water Limited is responsible for operating the clean water treatment works together with carrying out all of the routine and major life cycle maintenance throughout the 25 year period of the concession.

On 20 November 2017 NI Water Clear Limited purchased Dalriada Water Limited and Kelda Water Services (Alpha) Limited. NI Water Clear Limited is wholly owned by NIW. At the same time Kelda Water Services (Alpha) Limited changed its name to Northern Ireland Water Alpha Limited. Post acquisition, the Company transitioned to FRS101 IFRS in line with its new parent undertaking Northern Ireland Water and additionally made a prior year adjustment to its financial statements to account for a change in accounting policy from fixed asset accounting to finance contract debtor accounting.

Northern Ireland Water Alpha Limited carries out all of the operation and maintenance activities on behalf of Dalriada Water Limited in accordance with a principal sub-contract between the parties which also came into effect on 30 May 2006.

Dalriada Water Limited provides to NIW the required quantity of water at each of the sites to the specified water quality standards. In return for doing so Dalriada Water Limited earns a unitary charge from NIW and pays a monthly fee to Northern Ireland Water Alpha Limited for their services in operating the water treatment works and providing water to the required quantity and quality standards.

Under the terms of its contract with NIW, Dalriada Water Limited incurs performance deductions for any deviation from the required contractual water quality standards. These standards are set to significantly higher standards than the normal regulatory limits.

Financial performance and outlook

The performance during 2017/18 before tax was ahead of the prior year. The increase in profit before tax is due to higher water quantity into supply.

2017/18 continued with the satisfactory overall operational performance of Dalriada Water Limited. It was an excellent year for the operating company Northern Ireland Water Alpha Ltd in terms of contractual compliance and exceptional health and safety performance.

Throughout the year Dalriada Water Limited continued to make a series of six-monthly debt repayments to the banks that provided the funding to support the capital maintenance of the assets. Dalriada Water Limited will continue to repay its debt over the course of the 25 year operational lifetime of the assets.

Principal risks and uncertainties

Strategic, financial, commercial, operational, social, environmental and ethical risks are all considered as part of the company's controls, which are designed to manage rather than eliminate the risk of failure to achieve business objectives. Therefore they can only provide reasonable, not absolute, assurance against material misstatement or loss.

On a quarterly basis throughout 2017/2018 the directors of the company reviewed the company's strategic risk register. Risks are evaluated both in financial terms and in relation to their impact and likelihood and appropriate mitigation actions are assigned following the review.

Although at present there are no immediate risks considered likely to have a significant impact on the short or long term value of the company the principal risks identified are as follows:

Strategic report *(continued)*

Financial risk management

The financial risk management objectives of the company are to ensure that the financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. Financial instruments are not used for speculative purposes. Interest rate swaps are in place between 2006 and 2030 for notional principal amounts equating to half of the value of the expected bank debt that is at a variable rate of interest to give an effective fixed interest payable on this debt. The remaining half of the bank debt is at a fixed rate.

Credit and cash flow risks arise from Dalriada Water Limited's client and new ultimate parent undertaking, Northern Ireland Water. The credit and cash flow risks are not considered significant as the client is a 100% government owned company.

Price risk during the construction phase was mitigated as the contract to build the water treatment works was based upon a fixed price. From service commencement, the majority of the operating revenue is derived from an index linked fixed unitary charge with the remainder based on the volumes of water delivered to the client at an indexed price.

The company's liquidity risk is principally managed through financing the group by means of long term borrowings with an amortisation profile that matches the expected availability of funds from the company's operating reserves. In addition the company maintains reserve bank accounts to provide short term liquidity against future debt service and other expenditure requirements.

Contractual relationships

The company operates within a contractual relationship with its primary customer and new ultimate parent undertaking, Northern Ireland Water. A significant impairment of this relationship could have a direct and detrimental effect on the group's results and could ultimately result in termination of the concession. However, given the acquisition in the year, this is considered remote. To manage this risk the company has regular meetings with NIW including discussions on performance, project progress, future plans and customer requirements. The feedback from NIW remains very positive and they are very satisfied with the service delivery that they receive from Dalriada Water Limited.

Health, safety and environment

The company is very conscious of the health & safety risks in the operational supply of drinking water to the public. These risks are reviewed at Board level each month, are subject to frequent audits throughout the year and are also managed through regular meetings with NIW to review ongoing health and safety procedures and performance statistics. These review meetings include the outcomes of the regular independent audit results and enable appropriate plans to be developed and implemented. Environmental performance remains a key focus for the business and is also subject to close monitoring and review, again enabling appropriate plans to be developed and implemented.

Key performance indicators

As part of its responsibility for operating the clean water treatment works together with carrying out all of the routine and major life cycle maintenance for the life of the concession, the company has to meet a number of contractually specified key performance indicators relating to the availability and quality of water being supplied. Failure to meet these parameters could result in financial penalties and result in contractual non-compliance.

The Company has moved from fixed asset accounting to finance contract debtor accounting in 2017/18 (more information on this change can be found at note 18). Operating profit and net liabilities for both the current year and comparatives have been stated below on a contract debtor basis. Operating profit gives an indication of the company's operating performance from a financial perspective. The operating profit of £474,000 (2017 restated: £526,000) reflects higher costs in the year partially offset by increased turnover.

The company is in a net liabilities position at the year end of £729,000 (2017 restated: £4,109,000). The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of a parent company NIW. The directors have received confirmation that NIW intend to support the company for at least one year after these financial statements are signed.

Strategic report *(continued)*

Future developments

The company remains keen to explore ways of increasing the efficiency of the existing business and to generate additional turnover streams as it enters the 2018/19 year. The company continues to work with NIW to explore siting additional renewable energy generation on one of more of the sites it is responsible for, the concept being to supply NIW with the electricity generated from any such development. The company also continues to explore opportunities to bring about service improvements that benefit both NIW and the company, through, for example, the submission of an annual Continuous Service Improvement Report.

On behalf of the board

S Venning
Director

24 July 2018

Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2018.

Review of business and future developments

Results and dividends

The profit for the financial year amounts to £1,183,000 (2017 restated: £1,390,000). See review of business in the Strategic Report on page 2.

The directors have not recommended the payment of a dividend (2017: £nil).

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the parent company Northern Ireland Water.

Events since the end of the year

There have been no significant events since the end of the year.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

P J Doherty (resigned 14 August 2017)
C S Haysom (appointed 14 August 2017, resigned 20 November 2017)
G M Cawthra (resigned 30 September 2017)
I C Washer (resigned 4 September 2017)
A L Roach (appointed 30 September 2017, resigned 20 November 2017)
R Larkin (appointed 20 November 2017)
S Venning (appointed 20 November 2017)

Political donations and expenditure

The company made no political contributions during the period to 31 March 2018 (2017: £nil).

Directors' statement as to disclosure of information to the auditor

So far as the directors are each aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' indemnities

The company purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors through the Group Policy.

Independent auditors

KPMG has been appointed the auditor of the Company for the year ended 31 March 2018. Pursuant to section 487 of the Companies Act 2006, the current External Audit contract with KPMG will cease in November 2018. The tender process for a new contract is underway with an anticipated start date in November 2018.

Directors' report *(continued)*

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of its profit or loss 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 Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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. The directors are also responsible for preparing a directors' report that complies with the requirements of the Companies Act 2006.

On behalf of the board

M Ellesmere
Company Secretary

24 July 2018

Independent auditor's report to the members of Dalriada Water Limited

1 Report on the audit of the financial statements

Opinion

We have audited the financial statements of Dalriada Water Limited ('the Company') for the year ended 31 March 2018, which comprise the Profit and Loss Account, Other Comprehensive Income and Expense, Balance Sheet, Statement of Changes in Equity and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is UK Law and FRS 101 *Reduced Disclosure Framework*.

In our opinion, the accompanying financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the period then ended;
- have been properly prepared in accordance with FRS 101 *Reduced Disclosure Framework*; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the strategic and directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information;

- we have not identified material misstatements in the directors' report or the strategic report;

- in our opinion, the information given in the directors' report and the strategic report is consistent with the financial statements;

- in our opinion, the directors' report and the strategic report have been prepared in accordance with the Companies Act 200

Independent auditor's report to the members of Dalriada Water Limited *(continued)*

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in regard to these matters.

2 Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

Our 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.

John Poole

24 July 2018

John Poole, Senior Statutory Auditor
for and on behalf of
KPMG Statutory Auditor
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

Profit and Loss Account
for the year ended 31 March 2018

	Note	**2018 £000**	Restated 2017 £000
Turnover	*2*	**11,430**	9,591
Operating costs		**(10,956)**	(9,065)
Operating profit	*3*	**474**	526
Interest receivable and similar income		**6,936**	7,040
Interest payable and similar expenses		**(5,974)**	(6,312)
Profit before taxation		**1,436**	1,254
Tax on profit	*6*	**(253)**	136
Profit for the financial year		**1,183**	1,390

Other Comprehensive Income and Expense
for the year ended 31 March 2018

	Note	**2018 £000**	Restated 2017 £000
Profit for the financial year		**1,183**	1,390
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		**2,646**	276
Income tax on other comprehensive income	6	**(449)**	(180)
Other comprehensive income for the year, net of income tax		**2,197**	96
Total comprehensive income for the year		**3,380**	1,486

All of the results of the Company derive from continuing operations.

The notes on pages 12 to 24 form part of these financial statements.

Balance Sheet
as at 31 March 2018

	Note	**2018** **£000**	Restated 2017 £000
Current assets			
Debtors	*7*	**106,482**	108,006
Cash at bank and in hand		**7,024**	7,247
		113,506	115,253
Creditors: amounts falling due within one year	*8*	**(9,332)**	(7,640)
Net current assets		**104,174**	107,613
Total assets less current liabilities		**104,174**	107,613
Creditors: amounts falling due after more than one year	*9*	**(98,904)**	(106,426)
Provisions for liabilities			
Taxation including deferred tax	*12*	**(5,999)**	(5,296)
Net liabilities		**(729)**	(4,109)
Capital and reserves			
Called up share capital	*13*	**-**	-
Cash flow hedge reserve		**(8,629)**	(10,826)
Profit and loss account		**7,900**	6,717
Total shareholders' deficit		**(729)**	(4,109)

The notes on pages 12 to 24 form part of these financial statements.
The financial statements were approved by the board of directors on 24 July 2018 and were signed on its behalf by:

R Larkin
Director

Company registered number: NI050161

Statement of Changes in Equity
for the year ended 31 March 2018

	Called up Share capital £000	**Cash flow hedging reserve £000**	**Profit and loss account £000**	**Total shareholders' deficit £000**
Balance at 1 April 2017	-	(10,826)	6,717	**(4,109)**
Total comprehensive income for the year				
Profit	-	-	1,183	**1,183**
Other comprehensive income for the year				
Effective portion of changes in fair value of cash flow hedges	-	2,646	-	**2,646**
Income tax on other comprehensive expense	-	(449)	-	**(449)**
Total comprehensive income for the year	-	2,197	1,183	**3,380**
Balance at 31 March 2018	-	(8,629)	7,900	**(729)**

	Called up Share capital £000	**Cash flow hedging reserve £000**	**Profit and loss account £000**	**Total shareholder's deficit £000**
Balance at 1 April 2016	-	(10,922)	(12,117)	**(23,039)**
Effect of change in accounting policy (note 18)	-	-	17,444	**17,444**
Balance at 1 April 2016 restated	-	(10,922)	5,327	**(5,595)**
Total comprehensive income for the year				
Profit	-	-	1,390	**1,390**
Other comprehensive income for the year				
Effective portion of changes in fair value of cash flow hedges	-	276	-	**276**
Income tax on other comprehensive income	-	(180)	-	**(180)**
Total comprehensive income for the year	-	96	1,390	**1,486**
Balance at 31 March 2017	-	(10,826)	6,717	**(4,109)**

The notes on pages 12 to 24 form part of these financial statements.

Notes to the financial statements

1 Accounting policies

Dalriada Water Limited (the "Company") is a private company limited by shares and incorporated, domiciled and registered in the UK. The registered number is NI050161 and the registered address is Dunore Point Water Treatment Works, 9 Dunore Road, Aldergrove, Crumlin, Co Antrim BT29 4DZ.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS101 the Company has applied IFRS1 whilst ensuring that its assets and liabilities are measured in compliance with FRS101. An explanation of how the transition to FRS 101 has affected financial position and financial performance is provided in note 19.

The Company's ultimate parent undertaking, Northern Ireland Water Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Northern Ireland Water Limited are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from the Company's website www.niwater.com or from Northern Ireland Water Limited's registered office, Westland House, 40 Old Westland Road, Belfast, BT14 6TE.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An opening statement of financial position at the date of transition to FRS101;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy from fixed asset accounting to contract debtor accounting (see note 18);
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of Northern Ireland Water include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

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

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant note of material adjustment are set out in note 17.

Change in accounting policy

In these financial statements the Company has changed its accounting policy as follows:

Finance contract debtor accounting has been adopted and fixed asset accounting discontinued. It is considered that finance contract debtor accounting is more appropriate given the nature of the PPP concession agreement with Northern Ireland Water Limited which includes the reversion of the assets to Northern Ireland Water Limited on the expiry of the 25 year agreement. The prior year has been restated to reflect the impact of this change. The financial impact of those changes is stated at note 18.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of its parent company Northern Ireland Water Limited.

Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

Determination of fair values

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A number of the Company's accounting policies and disclosures require the measurement of fair values, both financial and non-financial assets and liabilities. Management have established a control framework with respect to the measurement of fair values and regularly review significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observables for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Impairment

Financial assets (including trade and other debtors)

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units (or CGUs). Subject to an operating segment ceiling test, for the purposes of impairment goodwill testing, CGUs to which goodwill has been allocated, are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired as a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

An impairment loss in respect of goodwill is not reversed

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cashflows at a pre-tax rate that requires risks specific to the liability.

Turnover

Turnover comprises the fair value of income earned in respect of operational services performed in the year together with any contract revenue earned in the year.

Expenses

Interest receivable and interest payable

Interest payable and similar expenses include interest payable, finance expense on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

During the construction phase of the concession agreement, all interest costs were capitalised within other capitalised costs which will then be amortised over the remainder of the 25 year contract term. This amortisation rate, although not the effective interest rate required by FRS101, is deemed by the directors to not be materially different.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that is it probable that future taxable profits will be available against which the temporary difference can be utilised.

2 Turnover

Turnover comprises the fair value of income earned in respect of operational services performed in the year together with any contract revenue earned in the year.

		Restated
	2018	2017
	£000	£000
Rendering of services	**11,430**	9,591
Contract revenue	-	-
Total	**11,430**	9,591

All turnover derives from the Company’s principal activity which is carried out in the United Kingdom.

3 Expenses and auditor’s remuneration

Included in profit are the following:

Auditor’s remuneration:

	2018	2017
	£000	£000
Audit of these financial statements	**8**	8

4 Staff costs and directors' emoluments

The company did not have any employees during the year ended 31 March 2018 (2017: nil).

The directors did not receive any emoluments for their services from the company (2017: £nil).

Notes to the financial statements *(continued)*

5 Interest receivable and interest payable

	2018	Restated 2017
	£000	£000
Interest income on bank deposits	**22**	40
Interest income on unimpaired financial assets	**6,914**	7,000
Total interest receivable and similar income	**6,936**	7,040
Interest expense on financial liabilities at amortised cost	**(5,974)**	(6,312)
Total interest payable and similar expense	**(5,974)**	(6,312)

Of the above amount £6,914,000 (2017 restated: £7,000,000) was receivable from group undertakings.

Interest payable and similar charges includes interest payable on bank loans and overdrafts of £4,596,000 (2017: £4,891,000). Of the above amount £1,378,000 (2017: £1,421,000) was payable to group undertakings.

6 Taxation

Total tax recognised in the profit and loss account

	2018	Restated 2017
	£000	£000
UK Corporation tax		
Current tax on income for the year	-	-
Total current tax	-	-
Deferred tax (see note 11)		
Origination and reversal of temporary differences	**283**	348
Change in tax rate	**(30)**	(477)
Adjustments in respect of prior periods	-	(7)
Total deferred tax	**253**	(136)
Tax on profit	**253**	(136)

		2018			2017 Restated	
	£000	**£000**	**£000**	£000	£000	£000
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	-	**253**	**253**	-	(136)	(136)
Recognised in statement of comprehensive income	-	**449**	**449**	-	180	180
Total tax credit	-	**702**	**702**	-	44	44

Notes to the financial statements *(continued)*

6 Taxation *(continued)*

Reconciliation of effective tax rate

	2018	Restated 2017
	£000	£000
Profit for the year	**1,183**	1,390
Total tax expense/(income)	**253**	(136)
Profit excluding taxation	**1,436**	1,254
Tax using the UK corporation tax rate of 19% (2017: 20%)	**273**	251
Non-deductible expenses	**14**	101
Group relief not paid for	**(4)**	(4)
Adjustments in respect of prior periods	**-**	(7)
Tax rate changes	**(30)**	(477)
Total tax expense/(income)	**253**	(136)

The deferred tax for 2017/18 has been calculated at the appropriate tax rate which is expected to apply when assets are realised or liabilities are settled.

In preparing the calculation a prudent approach has been taken when considering the rate at which timing differences, including losses, will reverse. The rates enacted at the balance sheet date are 19% for the two years from 1 April 2018 to 31 March 2020, and for accounting periods thereafter 17%.

From April 2017 two new pieces of legislation were introduced which may impact the future tax charge as follows:

- A restriction on the use of brought forward losses may affect companies that were previously loss making that became profit making, and have profits over £5m. This measure may result in cash tax being payable before all of the trading losses brought forward have been utilised.
- The Corporate Interest Restriction legislation was introduced. The company considers itself to be a qualifying infrastructure company for the Public Infrastructure Exemption and does not anticipate that the new rules will impact on the deductibility of interest payable.

Notes to the financial statements *(continued)*

7 Debtors

	2018 £000	Restated 2017 £000
Trade debtors	**-**	1,942
Amounts owed by group undertakings	**3,328**	1,162
Prepayments and accrued income	**1,628**	1,622
Contract finance debtor	**101,526**	103,280
	106,482	108,006
Due within one year	**8,936**	6,480
Due after more than one year	**97,546**	101,526

Included within debtors is £97,546,000 (2017: £101,526,000) expected to be recovered in more than 12 months relating to the contract finance debtor. Amounts owed by group undertakings relate to intercompany trading balances and are unsecured, interest free and repayable on demand.

8 Creditors: amounts falling due within one year

	2018 £000	Restated 2017 £000
Bank loans and overdrafts (see note 10)	**4,081**	3,809
Amounts owed to group undertakings	**1,324**	1,023
Taxation and social security	**545**	591
Other creditors	**3,352**	2,173
Accruals and deferred income	**30**	44
	9,332	7,640

Amounts owed to group undertakings includes £489,000 (2017: £441,000) of subordinated debt due to Northern Ireland Water Clear Limited. The terms in respect of this loan are included in note 10. The balance of amounts owed to group undertakings relates to intercompany trading balances which are unsecured, interest free and repayable on demand.

Notes to the financial statements *(continued)*

9 Creditors: amounts falling due after more than one year

	2018	Restated 2017
	£000	£000
Bank loans and overdrafts (see note 10)	**76,691**	80,718
Amounts owed to group undertakings	**12,206**	12,695
Other financial liabilities - interest rate swaps (see note 11)	**10,397**	13,043
Other creditors	**(390)**	(30)
	98,904	106,426

The amount owed to group undertakings relates to subordinated debt due to Northern Ireland Water Clear Limited (see note 10).

Included above are amounts repayable after five years by instalments of £50,556,597 (2017: £44,077,234).

The other financial liabilities relate to the fair value of interest rate swaps taken out to manage interest rate volatility on firm future commitments. The fair values of these derivatives at the balance sheet date are determined by reference to their market values, which are provided by a third party.

10 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

Terms and debt repayment schedule

	Interest rate type	Nominal interest rate %	Year of maturity	Repayment profile	2018	2017
					£000	£000
EIB secured bank loan	Fixed	5.18	2029	Semi Annual Capital and interest	**38,984**	41,046
RBC secured bank loan	Variable	LIBOR plus margin	2030	Semi Annual Capital and interest	**41,788**	43,481
Subordinated loan from Northern Ireland Water Clear Limited	Fixed	10.58	2031	Semi Annual Capital and interest	**12,695**	13,136
					93,467	97,663

Included within secured bank loans are amounts repayable after five years by instalments £50,556,000 (2017: £56,910,000). Included within the subordinated loan are amounts repayable after five years by instalments £10,676,000 (2017: £11,117,000). The secured bank loans are secured over the contract finance debtor with a carrying amount of £101,526,000.

Notes to the financial statements *(continued)*

11 Other financial liabilities: amounts falling due after more than one year

	2018 £000	Restated 2017 £000
Financial liabilities designated as fair value	**10,397**	13,043
	10,397	13,043

The financial liabilities relate to interest rate swaps, the fair value of which has been measured by independent experts using mark to market value.

12 Deferred tax assets and liabilities

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

	Assets 2018 £000	Restated 2017 £000	**Liabilities 2018 £000**	Restated 2017 £000	**Net 2018 £000**	Restated 2017 £000
Financial assets	**-**	-	**9,567**	9,361	**9,567**	9,361
Tax value of losses carried forward	**(1,801)**	(1,848)	**-**	-	**(1,801)**	(1,848)
Financial liability designated as fair value	**(1,767)**	(2,217)	**-**	-	**(1,767)**	(2,217)
Tax (assets) / liabilities	**(3,568)**	(4,065)	**9,567**	9,361	**5,999**	5,296
Net tax liabilities					**5,999**	5,296

Of the above net temporary differences £nil (2017: £nil) are reversible within 12 months.

Movement in deferred tax during the year

	1 April 2017 £000	**Recognised in profit £000**	**Transition to FRS 101 £000**	**Recognised in other comprehensive income £000**	**31 March 2018 £000**
Financial assets	9,361	206	-	-	**9,567**
Other financial instruments	(2,217)	-	-	450	**(1,767)**
Tax value of loss carry-forwards utilised	(1,848)	47	-	-	**(1,801)**
	5,296	253	-	450	**5,999**

Notes to the financial statements *(continued)*

13 Capital and reserves

	2018	2017
Share Capital	**£000**	£000
Allotted, called up and fully paid		
100 ordinary shares of £1 each (2017: 100 ordinary shares of £1) each	-	-
Shares classified as shareholders' funds	-	-

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur:

	Carrying Amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	£000	£000	£000	£000	£000	£000	£000
Trade and other payables	**10,397**	-	-	-	-	-	(10,397)
Total	**10,397**	-	-	-	-	-	(10,397)

14 Related parties

Identity of related parties with which the Company has transacted

Since 100% of the Company's voting rights are controlled by Northern Ireland Water Limited, the Company has taken advantage of the exemption not to disclose transactions or balances with other wholly owned subsidiaries.

15 Guarantees

In accordance with the share acquisition by the Northern Ireland Water Group of: (i) Dalriada Water (Holdings) Limited; and (ii) Northern Ireland Water Alpha Limited (formerly named Kelda Water Services (Alpha) Limited) (the "OpCo"), a parent company guarantee to Dalriada Water Limited (the "ProjectCo"), previously provided by Kelda Group Limited, has novated to Northern Ireland Water Limited. The guarantee guarantees the performance by the OpCo of the OpCo's obligations and liabilities under the terms of a principal sub-contract between the ProjectCo and the OpCo. Under the terms of the project agreement, the ProjectCo earns a Unitary Charge from Northern Ireland Water Limited in return for providing the required quantity of water to Northern Ireland Water at each of the specified sites to the specified water quality standards.

16 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Northern Ireland Water Limited which is the ultimate parent company and controlling party.

The results of the Company are consolidated in the financial statements of Northern Ireland Water Limited, incorporated in Northern Ireland. No other group financial statements include the results of the Company. The consolidated financial statements of Northern Ireland Water Limited are available to the public and may be obtained from the Company Secretary at its registered address, Westland House, 40 Old Westland Road, Belfast, BT14 6TE.

17 Accounting estimates and judgements

The key assumptions and estimation uncertainty in respect of the fair value of financial instruments is set out in the accounting policies on page 14.

Notes to the financial statements *(continued)*

18 Prior Year Adjustment

At the year end, a prior year adjustment was made to the company's financial statements to account for a change in accounting policy from fixed asset accounting to finance contract debtor accounting.

The effect of this adjustment on the company's profit and loss account for the year to 31 March 2017 was as follows:

	As previously stated £000	Effect £000	As restated £000
Profit and Loss Account to 31 March 2017			
Turnover	19,180	(9,589)	9,591
Operating costs	(14,503)	5,438	(9,065)
Operating Profit	4,677	(4,151)	526
Interest receivable and similar income	-	7,040	7,040
Interest payable and similar expenses	(6,325)	13	(6312)
Net finance income	(6,325)	5,597	728
(Loss)/Profit on ordinary activities before tax	(1,648)	2,902	1,254
Tax on (loss)/profit	403	(267)	136
(Loss)/Profit for the financial year	**(1,245)**	**2,635**	**1,390**

The effect of this adjustment on the company's balance sheet at 31 March 2017 was as follows:

	As previously stated £000	Effect £000	As restated £000
Balance Sheet at 31 March 2017			
Intangible assets	2,537	(2,537)	-
Tangible assets	74,526	(74,526)	-
Debtors	4,726	103,280	108,006
Creditors amounts falling due within one year	(6,535)	(1,105)	(7,640)
Creditors amounts falling due after more than one year	(106,456)	30	(106,426)
Deferred tax provision	(233)	(5,063)	(5,296)
Profit and loss account reserves	(13,362)	20,079	6,717

The profit and loss account reserves at 31 March 2017 have been adjusted by £20,079k being an adjustment of £17,444k relating to previous years and £2,635k relating to 2016/17.

The main components of the prior year adjustment is made of cancellation of the tangible fixed asset value of £74,526k as at 31.3.2017, cancellation of the intangible fixed asset value of £2,537k as at 31.3.2017, creation of a financial asset amounting to £103,280k as at 31.3.2017 and creation of a Unitary Charge control account of £1,075k as at 31.03.2017 within Creditors amounts due within one year to reflect deferred income (or accrued income) in relation to the timing of Volumetric "Servicing" income.

The accounting impact of adopting a financial asset approach to the annual Unitary Charge in 2016/17 is to split the total receivable income between current year water treatment services (in line with the volumetric charges) (income reduced by £9,589k to £9,591k) and current year interest return to provide an economic return from the financial asset comprising the original design and construction costs and the relevant lifecycle expenditures which are capitalised over the 25 year Contract period (interest received increased to £7,040k). The tax impact has been calculated on the basis that the company will continue to be entitled to capital allowances. Confirmation of this entitlement is being obtained from HMRC.

Further impacts are a balance identified within the Unitary Charge control account representing deferred income or accrued income in relation to the matching and timing of operational Service charges/income resulting in reduction of operating costs by £5,438k and capital repayments of £4,415k to be set against the amount due/payable by NI Water from the financial asset.

Notes to the financial statements *(continued)*

18 Prior Year Adjustment *(continued)*

The accounting for the concession success fees is also changed so that the balance is now included within the financial asset balance and accounted for in line with the above treatment.

19 Explanation of transition to FRS101 from FRS102

As stated in Note 1, these are the company's first financial statements prepared in accordance with FRS101. The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 31 March 2018, the comparative information presented in these financial statements for the year ended 31 March 2017 and in preparation of an opening FRS101 balance sheet at 1 April 2016 (the Company's date of transition). In preparing its FRS101 balance sheet, the company has not adjusted the restated amounts as detailed in Note 18.