Annual Report & Accounts 2018/19

northern ireland water

Northern Ireland Water

Annual Report and Accounts
For the year ended 31 March 2019

Laid before the Northern Ireland Assembly under Article 276 of the Water and Sewerage Services (Northern Ireland) Order 2006 by the Department for Infrastructure on 29 August 2019

About this report

This report aims to tell the story of how NI Water provides the water for life we all rely on to thrive.

Tell us what you think of our report

We hope that this report will be of use to all our stakeholders and would welcome feedback to develop our future reporting.

Please direct any feedback to the Business Reporting Manager, Finance and Regulation Directorate. Our contact details are on the back cover of this report.

Any enquiries regarding this publication should be addressed to the Business Reporting Manager using the contact details on the back cover of this report.

We would like to acknowledge particular thanks to Michael Cooper Photography who supplied the majority of images used in our report.

Cautionary note

This document contains links to other websites. Any information contained on these websites has not been subject to audit. Refer to the Independent Auditors' Report on page 162 for details on which areas of this report have been subject to audit.

Contents

Tree planting at the Glenedra River, County L'derry to reduce bankside erosion, improve water quality and restore ecosystems

Strategic Report

This Strategic Report is produced in accordance with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Welcome

'NI Water must also play its part, and identify profitable solutions that underpin a healthy and thriving population, a growing economy, and a flourishing natural environment. In doing so, we can all help support a clean growth revolution.'

Changing how we all think about water

Nature provides us with a range of eco-services, which filter our fresh water, absorbing and retaining carbon, protect us from flooding, provide recreation, attract tourists and support our overall health and wellbeing. NI Water relies on fresh water as the key input to provide its services. Sustainably managed, this renewable natural capital infrastructure is a gift, which keeps on giving, for free.

As a society we need to place more value on water; to reduce pollutants entering our waterways and the millions spent on removing them through water treatment; to work with nature rather than against it to support sustainable economic growth; to be ready for more extreme weather conditions; to better design our homes to use less high quality drinking water for flushing the toilet and washing the car; and reduce the millions spent keeping our sewer networks clear of inappropriate items. NI Water must also play its part, and identify profitable solutions that underpin a healthy and thriving population, a growing economy, and a flourishing natural environment. In doing so, we can all help support a clean growth revolution.

Building on our success

Since our formation in 2007, we have been leading the challenge on doing more for customers, with fewer resources. We have transformed the delivery of water services, delivering record levels of service for our customers while reducing our cost base through sustainable efficiencies. NI Water is one of the most successful examples of a public sector organisation achieving private sector levels of performance and efficiency.

This year's Annual Report is a testament to that success. Over 2018/19 we have delivered record levels of drinking water and used water compliance, record low pollution incidents, our lowest ever levels of supply interruptions and the best ever levels of service for our customers. This has been delivered while keeping bills affordable.

Drains before cranes

We want to continue to build on this success and become world class. To do so, we have developed a draft long term strategy covering the next quarter of a century (2021-2046). The strategy outlines how the use of world class approaches can successfully tackle some of the challenges over this period, most notably climate change. We are engaging with all our stakeholders over 2019 on the draft strategy to ensure that our customers remain at the heart of service delivery.

However, this future success and our progress to date is dependent on a solution being found to the funding of water and sewerage infrastructure. Northern Ireland is unique within the UK as being the only part where the regulated water utility is unable to fully implement the economic regulator's final determination due to public expenditure constraints.

Underfunding of our PC15 business plan 2015-21 (£990m actual versus £1.7bn required) has already resulted in curbs to economic development with new housing and businesses being unable to get connected to our sewerage system in around 70 towns throughout the province. Indeed, the growth of Belfast City, the primary economic engine of Northern Ireland will stall unless the £1bn investment in strategic drainage, under the Living with Water Programme, is supported. The City Deal risks not realising its full potential. If you want to put up the cranes, you have to invest in the drains.

Page 34
Read more about curbs to development

Tipping point

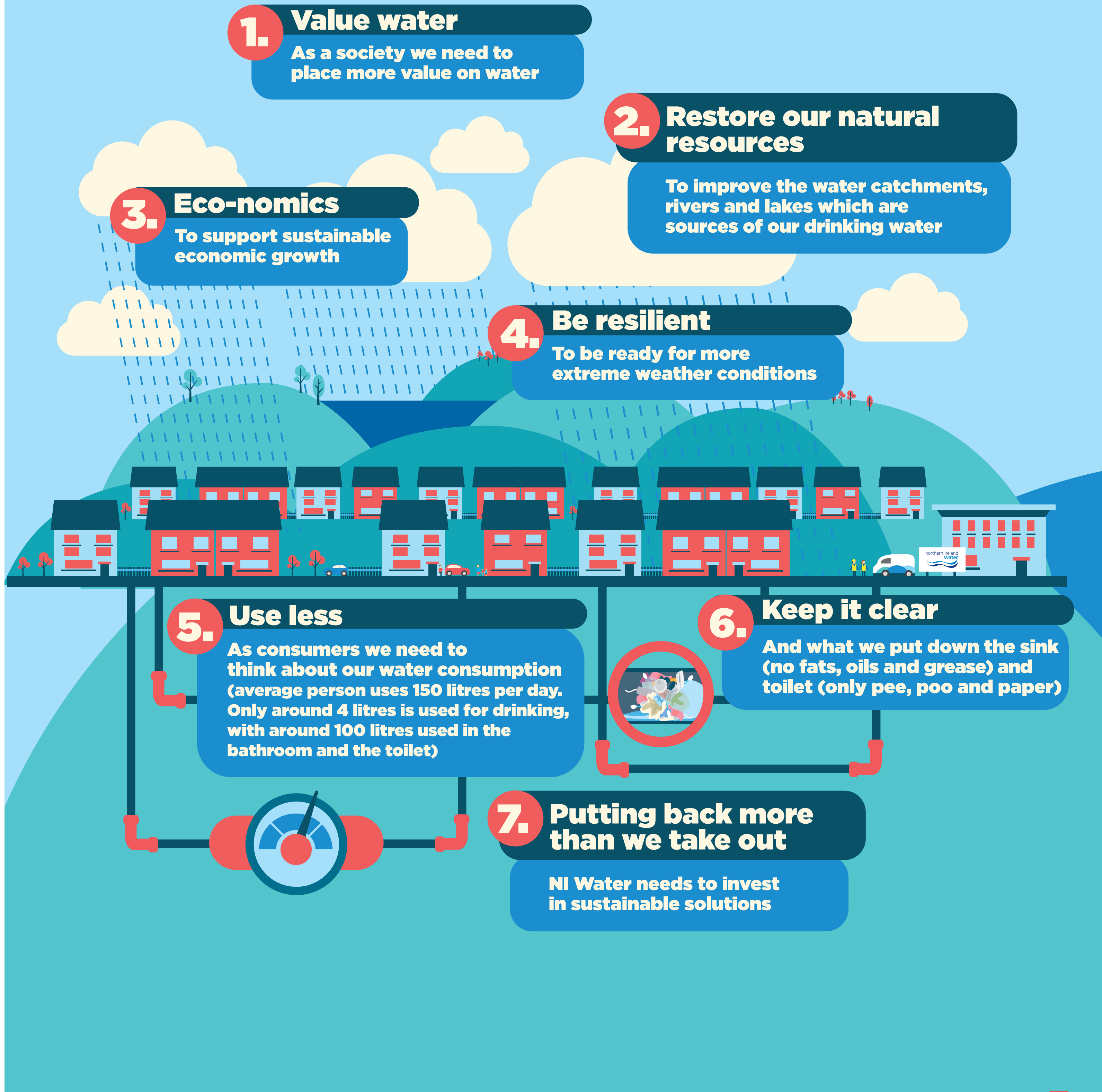
We are therefore facing a tipping point as we approach the next business plan period PC21 (2021-27), which will require an investment of around £2.5bn, including the Living with Water Programme. The NI Water Board and Executives continue to work with stakeholders to identify a means to fund this vital investment. However, a solution has not been identified. Our shareholder, DfI, needs to commit to fund this investment but faces competing pressures from transport infrastructure. Unlike in the rest of the UK, the risk of shareholder sanction from the Utility Regulator is much diminished due to our Government ownership. The absence of a NI Assembly places a greater role on the Department of Finance in identifying a solution to avert a funding crisis for vital infrastructure.

Putting back more than we take out

Our vision is to grow value and trust by being world class. To do this, we need to look beyond the traditional focus on financial capital and hard concrete solutions by ensuring that our decisions sustainably grow all forms of capital. This means maintaining not just our physical water and sewerage infrastructure, but also our renewable natural capital infrastructure. A notable example is the cross border 'Source to Tap' partnership in the Erne and Derg areas, which focuses on improving our water catchment ecosystems. This is economically wise and will enable us to pass on a lasting legacy to future generations, underpinning overall prosperity and wellbeing. NI Water is proud to be playing its part in this clean growth revolution.

Dr Leonard J. P. O'Hagan CBE DL
Chairman
20 June 2019

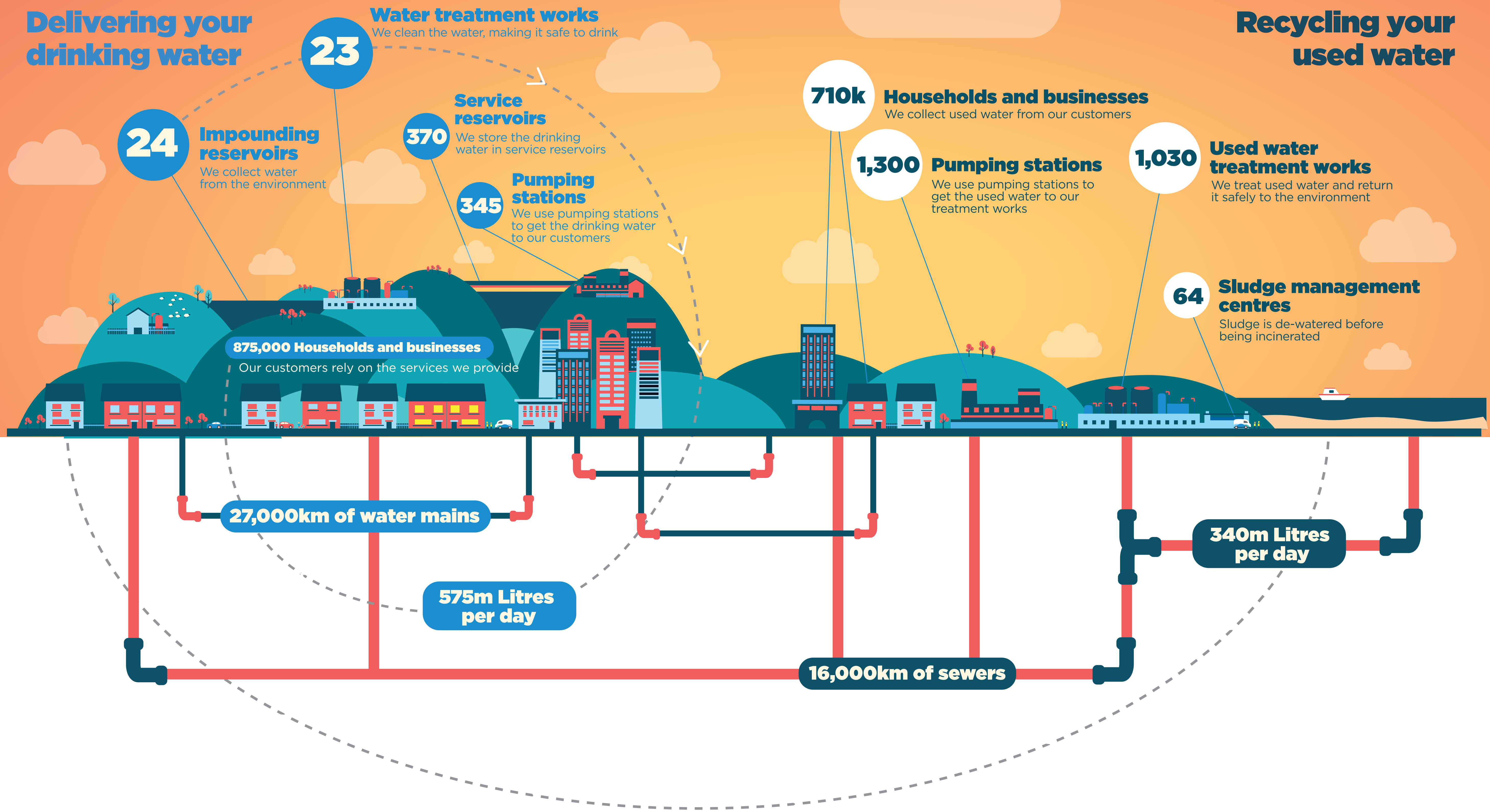
Changing how we all think about water



About NI Water

It costs around £460m each year to deliver water services in Northern Ireland. Thousands of assets at a value of around £3bn, are operated and maintained to provide these services. This includes over 40,000km of water mains and sewers - one and a half times longer than Northern Ireland's entire road network and long enough to circle planet earth.

Strategic Report



Strategic Report

How we create value

Our business model creates long term sustainable value for our stakeholders and wider society.

Our resources

- People
- Networks and assets
- Fresh water
- Used water
- Financial
- Land
- Research and development
- Stakeholder relationships

Strategy and governance

Business strategy
Read more pg18

Strategic performance indicators
Read more pg52

Risk and resilience
Read more pg53

Strategic threats and opportunities
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Corporate governance
Read more pg70

Outputs

Drinking water
Treated used water
Skills and expertise
Innovation
By-products and emissions

Our purpose

To provide the water for life we all rely on to thrive.

Our vision

To grow value and trust by being world class.

Key business activities

Water services
Used water services

Read more pg8

Our culture

Customer service excellence
Continuous improvement
Collaborative working
Taking ownership
Integrity

External environment

Read more pg14

Where we add value

Customer service
Read more pg20

Drinking water quality
Read more pg24

Water supply
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Used water
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People
Read more pg36

Natural environment
Read more pg40

Climate change
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Value for money
Read more pg48

Business performance

I am delighted with the progress we are making in delivering our ambitious PC15 business plan, which includes delivery of our best ever levels of service[1] to customers over 2018/19.

Delivering our ambitious business plan

Much of the work we are doing will build the foundation for further transformational changes in our next business plan period, PC21. Some of the notable highlights are provided below and further details on progress are contained in this report.

Delighted customers

Changing customer expectations, the digital revolution and demographic and lifestyle changes are all leading NI Water to embrace new ways to meet our customer needs, now and in the future. Our customer satisfaction surveys tell us we are improving but we can't stop there in our vision to be world class. We are looking to provide customers with more self-service options such as web and mobile self-service, interactive voice response or chatbots. Our 'Knowledge Base' tool has proved to be very popular with our customers over 2018/19. The tool uses chatbot technology and artificial intelligence to help guide customers through a structured dialogue, providing answers to a wide range of their questions across all our service areas.

Page 20
Read more about providing you with the customer service you value and expect.

Tasty, clean and safe

Delivery of great tasting, clean and safe drinking water is central to what we do. It underpins the public health and economy of Northern Ireland. Every day we supply 575 million litres of great tasting, clean and safe drinking water to 875,000 households and businesses, underpinning public health and the economy of Northern Ireland. Nearly half a million water quality tests are undertaken by us every year to check that our drinking water meets the required standards. We are delighted we have delivered our best ever drinking water quality in 2018.

Page 24
Read more about providing you with clean, safe water to drink.

Battling the elements (again)

As a water company we are conscious of the climate in which we operate and we are seeing increasing extreme weather events, often linked to climate change. We will need to adapt how we build and operate our assets to face the challenges faced during these extreme weather events.

Last year, we experienced sub-zero temperatures and snowstorms. This year we faced a 25% surge in demand for drinking water over summer 2018, requiring a hosepipe ban. The problem wasn't the levels of fresh water sources – our customers were simply using the water quicker than we could treat and supply it (known as a demand surge). During the demand surge, we increased the production of drinking water from normal levels of around 575 million litres per day to a high of around 700 million litres. That meant that each of us were using approximately 200 litres per day compared to the normal 150 litres per day.

[1]Overall Performance Assessment score of 245 in 2018/19 against a target of 227.

A combination of our major incident response, a change in the weather and our customers reducing their levels of consumption allowed us to lift the ban.

Page 28
Read more about supplying you with the water you need.

Keep it clear

Our sewer network is designed to safely dispose of the three Ps: Pee, Poo and Paper. If other things are flushed down the toilet or poured down the sewer, sewer pipes can and do block. During 2018/19, we invested in new state of the art vans designed to aid staff in resolving customer complaints for blocked sewers. These new vans have had specialist bespoke fit outs and are equipped with high pressure jetting equipment as well as CCTV equipment in order to identify any faults, blockages or repairs straight away.

Page 32
Read more about taking care of your used water so it doesn't pollute your environment.

Tapping in to talent

Organisations cannot reach their full potential unless they benefit from the rich variety of talents and abilities of all their employees. A balanced workforce is good for business – it is good for customers, for profitability and workplace culture. We recognise the importance of diversity and inclusion in the workplace and wider community and are firmly committed to supporting this throughout our organisation. As a demonstration of our commitment, we are delighted to announce that we are now members of Diversity Mark NI.

Page 36
Read more about providing excellent service by having the right people doing the right thing for you.

Source to tap

Some of the land management practices in water catchments are damaging to both the natural environment and the economy. Sediments and herbicides run off the land and drain into the fresh water, the same fresh water, which we use to produce drinking water. NI Water spends millions removing these materials in our water treatment works to produce drinking water that meets strict drinking water quality standards. These pollution costs are borne by water consumers. It is more cost effective for us to address these pressures at source and revitalise our rivers and lakes. We continue to progress 'Source to Tap' cross-border partnership project to improve water quality in rivers and lakes in the Erne and Derg catchment areas. We are also rolling out a number of pilot projects to wipe out the use of MCPA herbicide.

Page 40
Read more about protecting and enhancing the natural environment.

Power play

As the largest user of electricity in Northern Ireland we have an opportunity to play a key role in addressing climate change and take advantage of the huge changes to the electricity market. These changes include more generation at source, a smart grid to support energy trading and improved battery storage. We are targeting an increased use of renewable energy from 13% in 2012/13 to 40% by 2021. Over 2018/19, we continued to deploy digital technology to reduce energy use, contributing to a 15% reduction in our carbon emissions.

Page 44
Read more about adapting to deal with the effects of climate change.

Keeping bills affordable

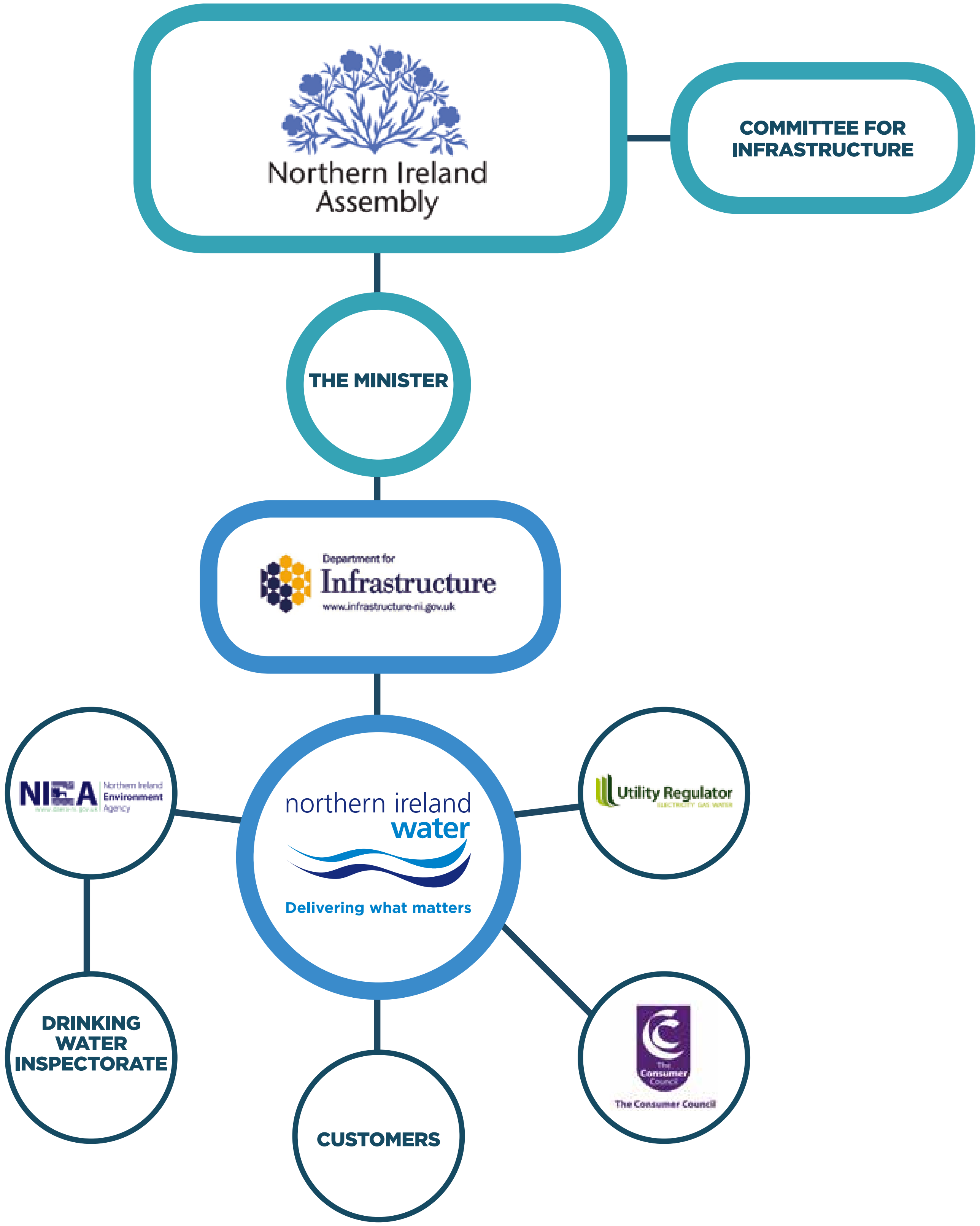
The amount by which we can increase customer tariffs is determined by the Utility Regulator. We are acutely aware of our responsibility to strike a balance between the need to generate sufficient income to allow us to continue delivering our services and minimising impact on business customers. We therefore limited the increase for 2019/20 to 2.7% on average. This means non-domestic customers will still pay 1.5% less, in real terms, for their water and sewerage services in 2019/20, than they did when the current PC21 price control period began in 2015.

Page 48
Read more about seeking to give you value for money.

Sara Venning
Chief Executive
20 June 2019

External environment

The water industry structure in Northern Ireland is shown below:



Strategic Report

Role of Government

Water and Drainage Policy Division in the DfI is responsible for setting water policy, for our funding through customer subsidies and lending the funds to support our investment programme.

Utility Regulator

The majority of NI Water's activities are not undertaken in competitive markets and are therefore subject to economic regulation by the Utility Regulator. NI Water Limited provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator. Our revenue requirements, the amounts charged to our customers and our performance outputs are set by the Utility Regulator through a Price Control process.

Northern Ireland Environment Agency

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

Drinking Water Inspectorate

The Drinking Water Inspectorate (DWI) is an expert unit within the NIEA. DWI is responsible for monitoring and regulating the quality of drinking water, in consultation with health and environmental health authorities.

Consumer Council for Northern Ireland

The Consumer Council for Northern Ireland is a statutory body which represents the interests of water consumers. Its functions include providing our customers with advice and information; investigating complaints and undertaking research such as surveys of consumers' views.

Listening to you

Listening to our customers' and stakeholders' views and building these into our strategy is essential for us to ensure that our customers' needs are at the heart of our service delivery.

We are all ears

Interim PC15[2] (2018) Customer Research / Annual Omnibus Survey
250
Business customers (computer assisted telephone interviewing)

Interim PC15[2] (2018) Customer Research / Annual Omnibus Survey
1,000
Domestic customers (face to face)

PC21[3] (2019) Customer Research
1,300
Domestic and business customers surveyed

12,000+
Facebook fans

200
Large business customers surveyed bi-annually

Up to 10,000
Customers who have contacted NI water surveyed annually (telephone)

200,000
Conversations with our Customer Relations Centre annually

7,000+
Twitter followers

1.4m+
NI Water website views

150+
Elected representatives surveyed on a regular basis

Stakeholder groups

Taking part in a range of stakeholder groups helps us to report what is most important to them.

Water Stakeholder Steering Group

Provides a forum for discussion on strategic issues relating to the price control and Ministerial guidance; discussion of major water and sewerage cross-cutting issues; discussion of policy development; keeping under review the governance and regulation of the water industry; and discussion of strategic communications issues.

Output Review Group

Provides a forum for stakeholders to discuss progress on key outputs and issues of common concern in the water industry.

Stakeholder subgroups

Working groups for coordinating the delivery of the price control process and related matters.

Infrastructure | The Consumer Council | Utility Regulator | NIEA Northern Ireland Environment Agency | DRINKING WATER INSPECTORATE

Customer priorities[4]

High	Medium	Low
Internal sewer flooding	Odour and noise	Water abstraction
Supply interruptions	Sewer blockages	Quality of river waters
External sewer flooding	Taste, smell and appearance	Quality of coastal waters
Low water pressure	Pollution incidents	

Summary

From our ongoing engagement, we understand that our customers:

- value water services which are reliable and resilient;
- expect problems to be fixed quickly and to be kept informed of progress;
- wish to see investment to reduce flooding from sewer 'hot-spots';
- wish to see investment to target interruptions to water supplies;
- expect strategic improvements rather than short term fixes; and
- wish to see improvement of the customer service experience including accuracy of billing and invoicing processes.

[2]Price Control 2015 (PC15) is the six year business plan period (2015 – 2021)
[3]Price Control 2021 (PC21) is the six year business plan period (2021 – 2027)

[4]https://www.consumercouncil.org.uk/search?search_api_fulltext=filestore+documents+Connecting+with+Consumers+Report+pdf

Business strategy

Our strategy to deliver our purpose and vision focuses on eight customer promises for the PC15 period (2015 to 2021) and has been developed after extensive stakeholder engagement. It should be noted that our ability to fully deliver against our customer promises is constrained by the funding available under public expenditure.

Read more about our strategy at:
https://www.niwater.com/sitefiles/resources/pdf/reports/pc15/pc15companystrategyweb.pdf

Promoting the refill campaign at the Balmoral Show

Delivering our customer promises

Customer service

We provide you with the customer service you value and expect

Right place, right time, right channel

Putting you more in control with our 'Knowledge Base' tool

All eyes and ears

Fixing problems before they impact customers and keeping customers informed on service failures

Getting Smarter

Piloting the use of smart technologies to reduce customer contacts and complaints

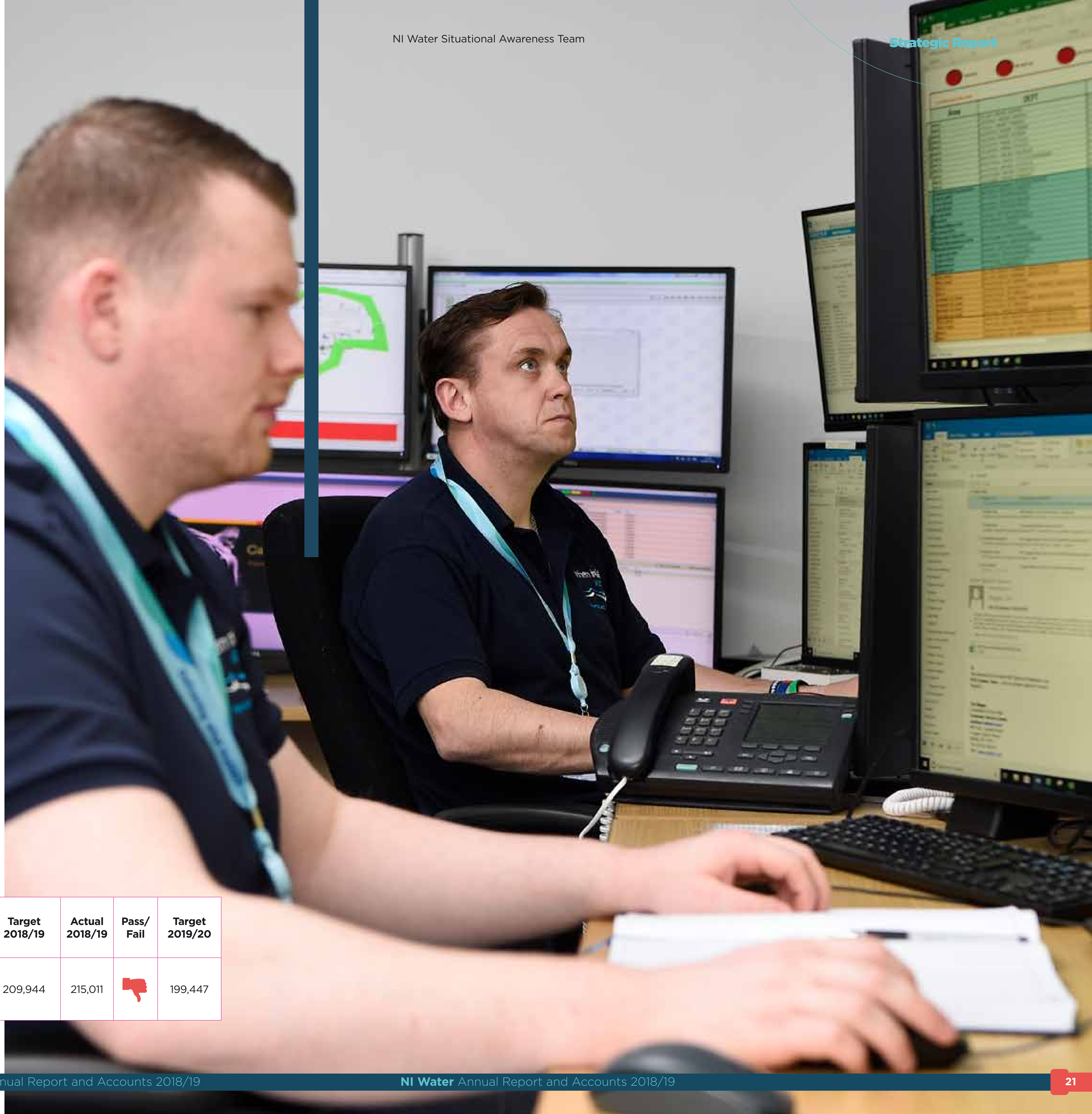
Strategic threats/opportunities

ST1 ST2 ST4 SO1 SO2 SO3 SO4

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Customer	Unit of measurement	Customer promise	Target 2018/19	Actual 2018/19	Pass/ Fail	Target 2019/20
Telephone contacts received	Number		209,944	215,011		199,447



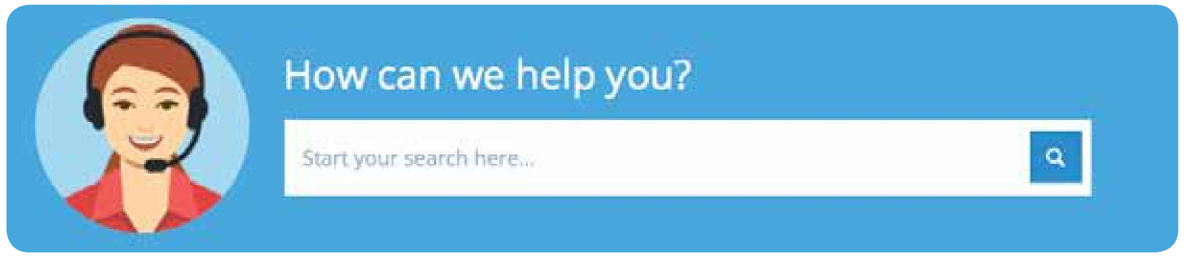
NI Water Situational Awareness Team

Right place, right time, right channel

Customers want to be more in control of how they interact with us, driving the need to be at the right place, at the right time, on the right channel and serving customers to a standard provided by leading service providers. We are looking to provide customers with more self-service options such as web and mobile self-service, interactive voice response or chatbots.

We experienced a higher volume of telephone contacts over 2018/19 than our target. However these were largely wanted calls where customers sought to settle their accounts. And also leakage, which was impacted by the same extremes of temperature from excessive cold to excessive heat.

NI Water chatbot technology



All eyes and ears

We collect a wealth of data from our customers and on the operation of our assets. Customers surveyed have increased from around 2,000 to 10,000 over 2018/19. Automated, semi-automated and human assisted channels enable our situational awareness team to detect issues that may affect our service before customers are even aware, so our skilled operatives can intervene early and prevent the service failure. If a service failure cannot be prevented, we use our data to issue updates to affected customers (for example by text messaging and social media) removing the need for our customers to contact us.

NI Water Situational Awareness Team

Getting Smarter

Our ambition is to become one of the leading utilities in the UK in the use of smart technologies. Smart metering technology presents an opportunity to reduce customer contacts, complaints and ultimately assist in the transformation into a next generation utility company. Over 2018/19 we introduced further functionality that will allow those customers with smart meters to obtain high consumption alarms to mitigate leakage. We are also piloting a range of other smart technologies to identify opportunities to deploy smart technology across our asset base.

Piloting smart meter technology

Drinking water

We provide you with tasty, clean, safe water to drink

Keeping it tasty, clean and safe

Best ever drinking water quality

Investing in water

£4m investment in Caugh Hill water treatment works

Tackling lead pipes

Replaced over 7,000 lead communication pipes through the proactive replacement programme

Strategic threats/opportunities

ST1 ST3 ST4 ST6 SO1

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Water quality compliance	Unit of measurement	Customer promise	Target 2018	Actual 2018	Pass/ Fail	Target 2019
Overall compliance with drinking water regulations (%)*	%		99.79	99.90		99.79

*Calendar year target

Sampling of fresh water at Ballinrees reservoir, County L'derry

Keeping it tasty, clean and safe

The great tasting, clean and safe drinking water we deliver to our customers underpins public health and the economy of Northern Ireland. Our ambition is that our customers will always have great tasting, clean and safe water when they need it. Every day we supply 575 million litres of clean safe drinking water to 875,000 households and businesses. We measure the quality of drinking water at water treatment works, service reservoirs and consumers' taps across Northern Ireland. Every year we undertake around 470,000 water quality tests and delivered our best ever drinking water quality in 2018.

Sampling of fresh water at Ballinrees reservoir, County L'derry

Investing in water

We invest around £150m each year in our water infrastructure. This includes investment to support drinking water quality. During 2018/19, we completed a £4m investment at Caugh Hill water treatment works outside Dungiven, County L'derry. The improvement work involved the construction of a new sludge press, which is an essential element of the water treatment process at the plant. The sludge press improves the efficiency of the water treatment process, bringing essential cost savings to the business as well as improving the water quality and service to our customers. A new filter was also added to enhance the overall process. This new filter brings environmental benefits, as the water used in the process is recycled, which maximises water usage at the plant and will enhance the water quality in nearby rivers.

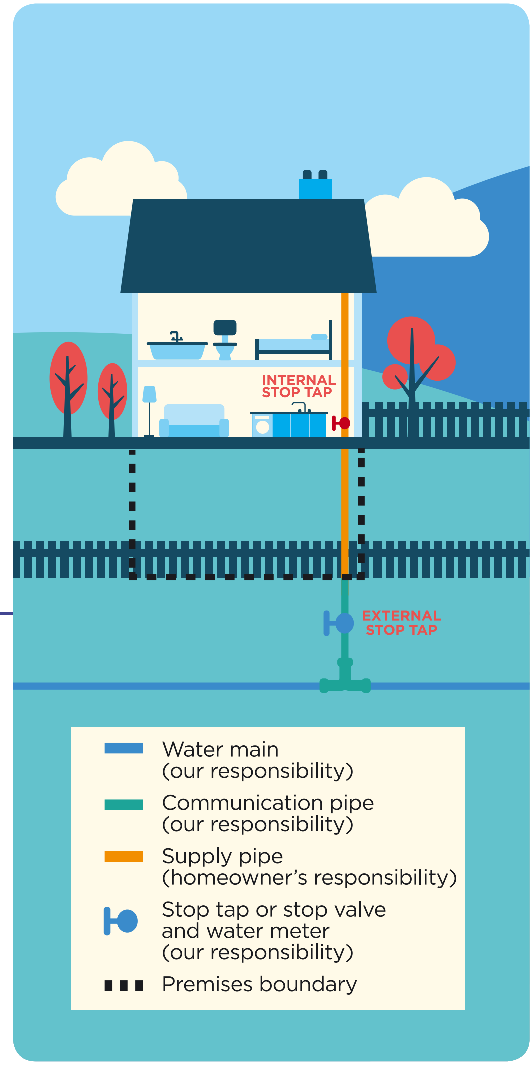
NI Water staff and the Mayor of Causeway Coast & Glens Borough Council at Caugh Hill water treatment works

Tackling lead pipes

The water leaving our water treatment works and in the distribution systems contains only trace amounts of lead. Over the PC15 period, we have committed to proactive replacement of over 11,000 lead communication pipes at consumer properties in addition to lead pipe replacement under water main rehabilitation and in response to sample failures. In the first three years of PC15 we have delivered 7,626 lead pipe replacements under the proactive replacement programme against a target of 7,376.

However, where lead has been used for supply pipes between the water main and the kitchen tap or in domestic plumbing, there is a risk of non-compliance at the consumers' tap. So even with the removal of all lead pipes within our network there will be a risk to lead compliance from lead pipe remaining within customer properties. Find out more about reducing the risk of lead at: www.niwater.com/lead-pipes/

Lead communication pipes being replaced



Water supply

We supply you with the water you need

Calm under pressure

New CALM Network training facility launched to support continued reduction in supply interruptions

Summer demand surge

Demand for drinking water increased by 25% in summer 2018 requiring a hosepipe ban

Plugging the leaks

Leakage lowered but higher than target in 2018/19

Strategic threats/opportunities

ST1 ST2 ST3 ST4 ST6 SO1

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Supply	Unit of measurement	Customer promise	Target 2018/19	Actual 2018/19	Pass/ Fail	Target 2019/20
Number of properties experiencing unplanned and unwanted interruptions (expressed as a percentage of households) in excess of:						
(a) 6 hours	%		0.824	0.401		0.808
(b) 12 hours			0.160	0.035		0.153
(c) 24 hours			0.009	0.000		0.009

Our best ever performance

Leakage detection in Omagh, County Tyrone

Calm under pressure

We look after a water supply network extending to around 27,000km in length – around the same length as Northern Ireland's entire road network. Ensuring that customers receive a near uninterrupted supply of tasty, clean and safe drinking water is paramount. We achieved our targets for supply interruptions in 2018/19 despite Storm Emma (nick named the Beast from the East) at the start of the year followed by the hot weather experienced in the summer, which caused higher levels of bursts across our network.

To do this, we are using a combination of digital technology and business analytics to provide more accurate information on customers affected by interruptions, alongside a new CALM Network training facility for our staff, contractors and potentially other users such as such as the Northern Ireland Fire & Rescue Service and local Councils. The training will aim to provide more understanding about the causes of transient pressure surges in the water network, and alongside process improvements and water mains rehabilitation, will contribute to our ambitious targets of zero interruptions to supply and reducing leakage. We also reduced the number of lost minutes per property for our customers. At the end of March 2019 the lost minutes per property was 38 minutes, which was a reduction of 18 minutes from the previous year and within our target of 50 lost minutes per property. We plan to reduce the lost minutes per property by 50% to 25 minutes within the next 5 years, by 70% to 15 minutes by the end of PC21 (2027) and are targeting zero interruptions by 2050.

NI Water's CALM Network training facility

Summer demand surge

In June 2018, after a hot and dry period, we reluctantly introduced a hosepipe ban to protect our customers from the increased threat of supply interruptions. The problem wasn't the levels of fresh water – our customers were simply using the water quicker than we could treat and supply it (known as a demand surge). During the demand surge, we increased the production of drinking water from normal levels of around 575 million litres per day to a high of around 700 million litres. That meant that each of us were using approximately 200 litres per day compared to the normal 150 litres per day.

We set up our major incident teams to manage the incident. The teams kept water treatment works running virtually 24/7, rezoned supplies, manned refill points, tankered water to under stress reservoirs, managed the increased customer contacts and prioritised bursts and leaks. Throughout the ban, we provided regular updates to customers through a wide range of channels including TV and radio interviews, news releases, our website and social media. A combination of our major incident response, a change in the weather and our customers reducing their levels of consumption allowed us to lift the ban in July 2018.

Spelga Dam, County Down

Plugging the leaks

Leakage has been an ongoing issue for the water industry and it remains topical today. Historically we have used engineering techniques to work out the sustainable economic level of leakage i.e. the point at which the cost of fixing a leak outweighs the benefit.

We reduced leakage but failed to meet the target level of 157 million litres per day, with an actual level of leakage of 160 million litres per day in 2018/19. This was primarily caused by Storm Emma at the start of the year followed by the hot weather experienced in the summer, which caused a higher level of bursts on our network. We are undertaking enhanced reporting and collaboration with our contractors to achieve the PC15 target of 153 million litres per day by 2021.

We are also developing a new leakage strategy for PC21. This will consider new innovations to tackle leakage, including satellite imagery, which can be used alongside the ear of an experienced leakage detection engineer.

Leakage detection in Omagh, County Tyrone

Used water

We recycle your used water so it doesn't pollute your environment

Keep it clear — New fleet of specialist vans to target sewer blockages

Under-funding curbs development — Over 70 used water treatment works have capacity issues

Beat plastic pollution — We partner with the Marine Conservation Society to beat plastic pollution

Strategic threats/opportunities

ST1 ST2 ST3 ST4 ST6 SO1 SO3

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Used water compliance	Unit of measurement	Customer promise	Target 2018	Actual 2018	Pass/ Fail	Target 2019
Percentage of population equivalent (%)*	%		99.12	99.40		99.16

Our best ever quality

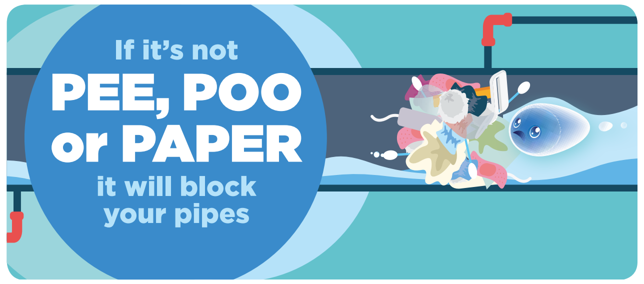
*Calendar year target

NI Water staff with new specialist vans to target sewer blockages

Keep it clear

Our sewer network is designed to safely dispose of the three Ps: Pee, Poo and Paper. If other things are flushed down the toilet or poured down the sewer, sewer pipes can and do block. We deal with around 15,000 blockages each year. Three quarters of all blockages are caused by inappropriate items being put in the sewers. Blockages are also caused by deterioration in the condition of pipes, collapses and equipment failure.

During 2018/19, we invested in new state of the art vans designed to aid staff in resolving customer complaints for blocked sewers. These new vans have had specialist bespoke fit outs and are equipped with high pressure jetting equipment as well as CCTV equipment in order to identify any faults, blockages or repairs straight away.

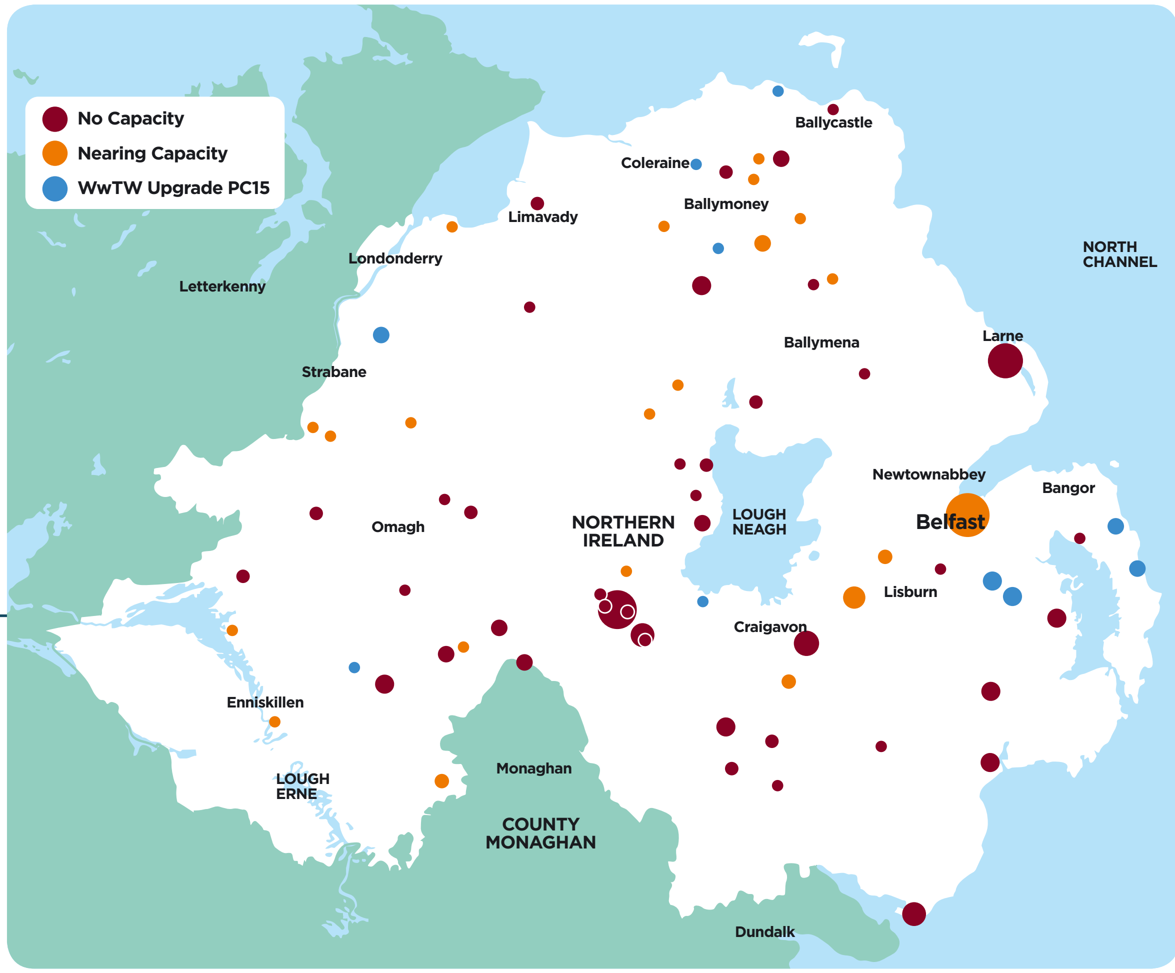


Under-funding curbs development

We have been warning for some time that the funding deficit we are operating with would eventually start impacting on investment and delivery. The underfunding is most acute for sewerage services, to the extent that new houses cannot be built in many towns throughout the province. Indeed, the growth of Belfast City, the primary economic engine of Northern Ireland will stall unless the investment in strategic drainage under the £1bn Living with Water Programme is supported.

In preparing our PC15 Business Plan, we identified over 70 used water treatment works where capacity issues existed. Around £60m was provided to upgrade 19 treatment works between 2015 and 2021, such as the £7m works at Ballycastle, opened in 2017/18. We started 2015 from a constrained capital expenditure position with £990m against a requirement of £1.7bn. Although we are a regulated utility we have not been immune from public expenditure cuts and uncertainty over funding. We expect the investment needed to address used water capacity issues to exceed £0.5bn for PC21, as part of an overall expenditure profile, which is likely to approach £2.5bn (including Living with Water Programme). Without adequate investment, there will be further impacts on service delivery, the local economy and the natural environment.

Sites across Northern Ireland where used water treatment works are at or near capacity



Beat plastic pollution

Plastic pollution has become an epidemic. Every year, we throw away enough plastic to circle the Earth four times. Much of that waste doesn't make it into a landfill, but instead ends up in our oceans, where it's responsible for killing one million seabirds and 100,000 marine mammals every year. For the good of the planet, it's time to rethink how we use plastic.

We support the Marine Society's beach clean. Over 2018/19, this involved picking up, recording and bagging items of plastic and marine litter across a 100 metre stretch of the coast at Holywood, County Down. The Marine Conservation Society use the data to raise awareness of the impact of litter and to inform other organisations and academics working on marine litter issues.

We work closely with Department of Agriculture, Environment and Rural Affairs to deliver the Marine Litter strategy for NI, which includes measures to deliver capital investment to improve used water treatment screening facilities at prioritised locations. We also promote the use of refillable water bottles to tackle single use plastics.

NI Water staff surveying plastic pollution at Holywood, County Down

People

We provide excellent service by having the right people doing the right thing for you

Happy, safe and healthy

We ran a series of 'Live Well' roadshows throughout the organisation to promote wellbeing

Tapping in to talent

We have become members of Diversity NI

Putting water whizz-kids in every home

We have taken the value of water message to over 100,000 school children

Strategic threats/opportunities

ST1 ST2 ST3 ST4 ST5 ST6 SO2 SO4

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Employee engagement	Unit of measurement	Customer promise	Target 2018/19	Actual 2018/19	Pass/ Fail	Target 2019/20
Percentage of employees engaged	%		60	55		60

Staff from NI Water's education team

Happy, safe and healthy

We strive towards 'zero harm' for employees, contractors and customers. During 2018/19, we maintained our sector leading performance in health and safety. In addition to our legal obligations to successfully manage our work related health and safety risks, our wellbeing programmes aim to promote employee health, improve staff attendance, and ensure we attract and retain great people.

As part of our Autumn Safety Programme, we ran a series of 'Live Well' roadshows at each of our Hubs to find out more about the 'Four Ways to Wellbeing'. Employees were able to find out more about how safety affects their health and how their health can affect their safety. Seminars, health and safety representatives and wellbeing charities were present to provide advice, guidance and health checks.

These activities helped increase our engagement score over 2018/19, but not enough to reach our target. We are aiming to increase the score to 65% by the end of PC15.

Tapping into talent

Organisations cannot reach their full potential unless they benefit from the rich variety of talents and abilities of all their employees. A balanced workforce is good for business – it is good for customers, for profitability and workplace culture.

Diversity and inclusion in the workplace means creating an inclusive environment that accepts each employee's differences, embraces their strengths, welcomes all perspectives and provides opportunities for everyone to achieve their full potential. Valuing difference allows each person to contribute their unique experiences to the workplace and can impact positively on not only internal activities and relationships, but the experiences of customers and other stakeholders as well.

We recognise the importance of diversity and inclusion in the workplace and wider community and are firmly committed to supporting this throughout our organisation. As a demonstration of our commitment, we are delighted to announce that we are now members of Diversity Mark NI.

NI Water received the Gender Diversity Charter Mark Award

Putting water whizz-kids in every home

For more than a decade, our multi-tiered educational programme, with a focus on school children, has delivered a comprehensive series of campaigns, tailored specifically in terms of message, delivery mechanism and language to different audiences – young people, families, businesses and the wider community. Our programme complements the Northern Ireland School Curriculum and has reached over 100,000 school children.

During the year, P5 pupils from St Patrick's Primary School in Castlederg enjoyed a tour of NI Water's Derg water treatment works in County Tyrone. The pupils learnt ways to reduce water usage and how important it is to be waterwise, especially around times of low rainfall. The pupils built their own slow sand filters in class before the visit and found out that it is not just as simple as taking water from a reservoir and sending it down the mains to the tap; there is a very important and often complicated process in between to treat the water to ensure it is tasty, clean and safe.

Water whizz-kids from St Patrick's Primary School visit Derg water treatment works, County Tyrone

Natural environment

We want to protect and enhance the natural environment

Slow the flow

We removed around 32,000m² of impermeable surface areas from entering our sewer network

Source to tap

Improving the quality of the fresh water in rivers and lakes in the Erne and Derg catchments

Wiping out MCPA

Free 'weed wiping' service to reduce the MCPA herbicide in our reservoirs

Strategic threats/opportunities

ST1 ST2 ST3 SO3 SO4

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Sustainable used water treatment solutions	Unit of measurement	Customer promise	Target 2018/19	Actual 2018/19	Pass/ Fail	Target 2019/20
Cumulative number of sustainable used water treatment solutions delivered	Number		3	5		4

River Derg catchment, County Tyrone

Slow the flow

Flooding and the risk of flooding can constrain economic development and increase the cost of insurance. Most of the urban areas of Northern Ireland, including road surfaces, are served by combined sewers that carry both sewage and surface water - such a system would never be built today as it is inefficient and results in pollution and flooding. We will gradually transform the sewerage network by taking every economically viable opportunity to disconnect surface areas from existing combined sewers, for example when laying a new storm sewer to service a new development. In many locations this will help free up capacity in combined sewers for new connections without having to lay new or combined sewers.

In 2018/19, we removed around 32,000m² of impermeable surface areas. This included 24,000m² for a new housing development on a brownfield site in Bangor, County Down and 8,000m² for new hotel, office and student accommodation in Belfast city centre.

Storm water separation in Belfast city centre

Source to tap

Some land management practices in water catchments are damaging to both the natural environment and the economy. Sediments and herbicides run off the land and drain into the fresh water, the same fresh water, which we use to produce drinking water. NI Water spends millions removing these materials in our water treatment works to produce drinking water that meets strict drinking water quality standards. These pollution costs are borne by water consumers. It is more cost effective for us to address these pressures at source and revitalise our rivers and lakes.

Source to tap' is a €5.3m, four year, cross-border partnership project to improve water quality in rivers and lakes in the Erne and Derg catchment areas. We are working closely with Irish Water, The Rivers Trust, Ulster University, Agri Food and Bioscience Institute (AFBI) and East Border Region.

Activities have initially focused on raising awareness of the importance of protecting our precious drinking water supplies and the connection between our rivers and lakes and what comes out of our taps. These activities have included a series of roadshows and information exchange events and an education programme being delivered to schools in the Erne and Derg catchments. In addition as part of the citizen science element of the project volunteers have been trained to carry out 'health checks' on their local rivers using the 'Riverfly' technique adding to the legacy element of the project.

A pilot land incentive scheme was developed and a launch event subsequently held in Castlederg in 2018. The pilot scheme is open to farmers in the Derg catchment upstream of the water treatment works and offers funding to landowners to adopt sustainable land management practices that help reduce herbicide residue and soil escaping from the land into the River Derg catchment. Monitoring stations are also in place to assess the effectiveness of the mechanisms being trialled.

A project website and interactive mapping portal is available at www.sourcetotap.eu

The Source to Tap project is supported by the European Union's INTERREG VA Programme, managed by the Special EU Programmes Body (SEUPB).

River Derg catchment, County Tyrone

Wiping out MCPA

Herbicides used in agriculture can pollute fresh water collected in our reservoirs. Over 2017 and 2018, we have been undertaking a pilot project at Seagahan water treatment works, which supplies drinking water to our customers in the Markethill area, County Armagh. Routine monitoring of fresh water in the dam showed elevated levels of the grassland herbicide MCPA, which was used to control rushes. MCPA can reach surface water through run-off from agricultural activity, such as pesticide application via a boom-sprayer.

The Water Catchment Partnership (NI Water, Ulster Farmers Union, NIEA, DAERA, College of Agriculture, Food and Rural Enterprise and the Voluntary Initiative) is working closely with the farming industry as part of the innovative pilot project to help reduce levels of MCPA in the Seagahan catchment area. A free 'weed-wiping' service was offered to local farmers as an alternative to a boom-sprayer. The service used the comparable herbicide Glyphosate rather than spraying MCPA.

A SINGLE drop of pesticide can breach the drinking water limit in a small stream for 30km

The results have been very positive and shown that partnership working with the farming community can sustainably restore our natural capital (fresh water quality), without the need for resource intensive investment at the water treatment works. The initiative is being rolled out further to the Eden Burn catchment area in Ballymoney, County Antrim over 2019/20. The results of the pilots will inform our asset management planning for PC21.

Water Catchment Partnership representatives with weed-wiping equipment at Ballinrees drinking water catchment, near Ballymoney, County Antrim

Climate change

We adapt to deal with the effects of climate change

Power play

Process control optimisation technology to reduce energy successfully piloted at two used water treatment works

Towards zero carbon

Annual carbon emissions have decreased by 15%

Artificial intelligence

We are deploying artificial intelligence to target risks posed by climate change

Strategic threats/opportunities

ST1 ST2 ST3 ST4 SO1 SO3 SO4

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Renewable energy	Unit of measurement	Customer promise	Target 2018/19	Actual 2018/19	Pass/ Fail	Target 2019/20
Percentage of NI Water's power usage derived from renewable sources	%		35	39		40

Instrumentation Control Automation and Telemetry technology

Power play

We completed a number of energy audits to identify energy saving opportunities. Some of the energy saving measures identified included the implementation of real time control technology and process control measures at used water treatment works.

Various chemicals are used in the secondary treatment stage process to remove harmful substances from the water. Real time control technology enables modifications to the process, such as altering the levels of dissolved oxygen, to minimise the energy usage whilst ensuring compliance with discharge consents.

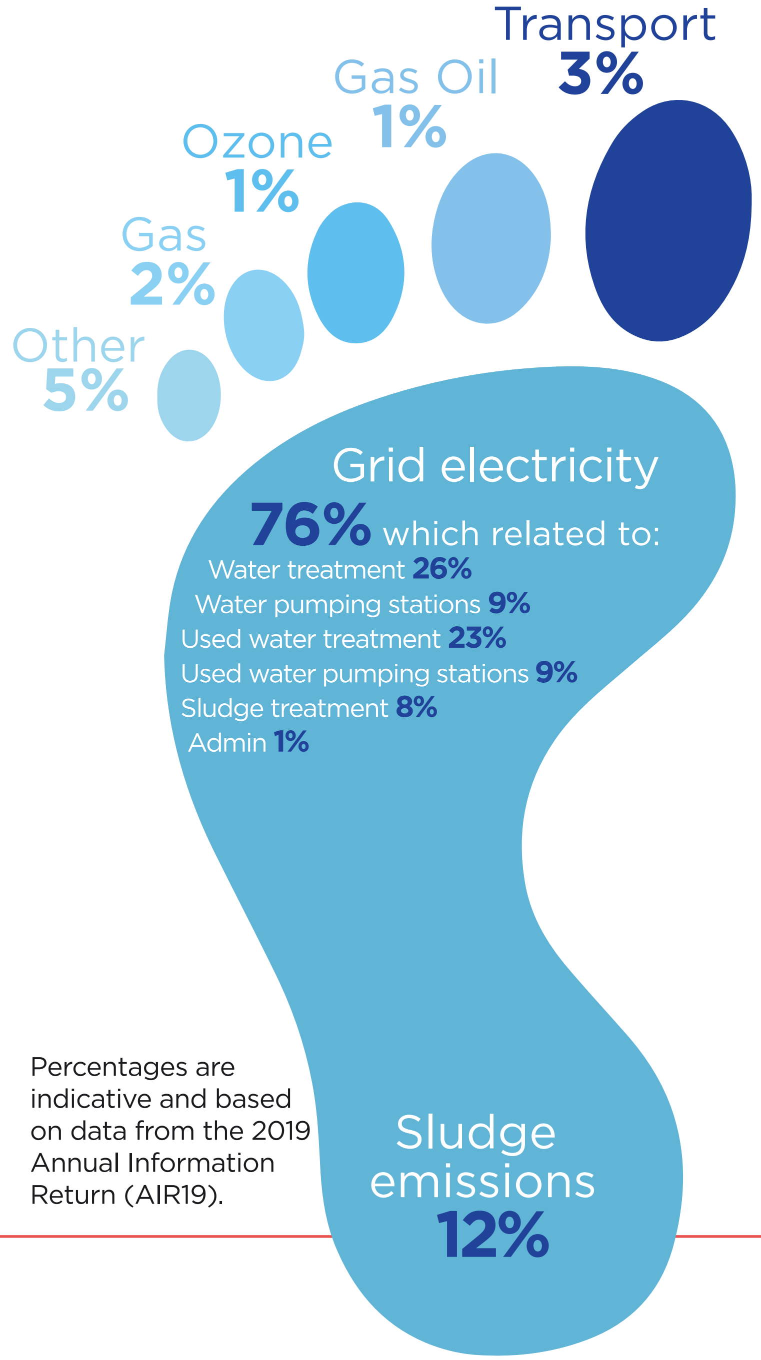
Proof of concept trials were completed at two of our used water treatment works. Initial results from both sites are encouraging. Energy savings were demonstrated, along with the ability for the treatment works to quickly respond to any change in demand, to ensure compliance is not compromised. We plan to roll out this technology at a number of other treatment works over the PC15 period.

Real time control technology at Antrim used water treatment works, County Antrim

Towards zero carbon

Energy is essential to deliver water services, with grid electricity accounting for the vast majority of our carbon emissions. As Northern Ireland's single largest electricity consumer, our goal is to fully exploit innovative approaches to energy and new technology to reduce our carbon footprint and ultimately become carbon neutral. We will achieve this by a wide range of actions that will affect almost every aspect of our business, including:

- improved instrumentation, automation and control of plant and equipment;
- investing in new treatment processes and pumping systems to reduce their energy demand and the emission of other greenhouse gasses;
- increasing our self-generation of renewable energy; and
- procurement of more renewable energy.



Percentages are indicative and based on data from the 2019 Annual Information Return (AIR19).

The majority of our carbon emissions are from grid electricity, with the remaining emissions being attributed to areas such as sludge emissions and transport. The annual carbon emissions resulting from activities of NI Water have decreased by 15%, decreasing from 106,816 t/CO2e in 2017/18 to 90,364 t/CO2e in 2018/19. This equates to 0.139 tonnes of carbon dioxide equivalent per million litres of treated water in 2018/19 (2017/18: 0.176 tCO2e/Ml) and 0.432 tonnes of carbon dioxide equivalent per million litres of treated used water in 2018/19 (2017/18: 0.611 tCO2e/Ml).

The annual carbon emissions resulting from the purchase of electricity have decreased by 20%, decreasing from 103,307 t/CO2e in 2017/18 to 81,876 t/CO2e in 2018/19. The main influencing factors include: overall reduction in kWhrs; reduction in emission factors; and changes in how green electricity purchased from the grid has been accounted for in the Carbon Accounting Workbook (CAW).

The emissions data is calculated using the CAW developed through UKWIR and WRc with participation from many of the UK water companies including NI Water.

Artificial intelligence

Advances in science and technology, known as the fourth industrial or the digital revolution, present a range of opportunities to address the strategic risks posed by climate change. We are already deploying digital technology, such as artificial intelligence, across different areas of our business. One of these areas includes the Instrumentation Control Automation and Telemetry (ICAT) programme to deliver smart, optimised, automatic remote system controls to our assets.

The ICAT technology helps us become more resilient to the effects of climate change and reduce our carbon footprint. The technology does this by allowing us to increase the storage volumes within our existing reservoirs, negating the need to build additional reservoirs capacity and the significant carbon involved in construction. It also removes the need for our staff to travel to sites to make control changes.

The first ICAT project is focused on installations at our service reservoirs, where treated water is stored locally for customers before use. Using smart instrumentation, programmable logic controllers (PLC's) in conjunction with our telemetry system, under normal operating conditions, we are able to monitor and automatically control flows and levels of our reservoirs making small incremental changes and maximising our network capacity whilst at the same time maintaining a calm network, which reduces the risk of burst pipes. Under abnormal conditions such as extreme weather events or unplanned interruptions, levels and flows can be controlled remotely either by operational staff or the telemetry control centre. To date we have installed this technology at over 120 sites.

NI Water staff member operating ICAT technology

Value for money

We seek to give you value for money

Keeping bills affordable — 2019/20 non-domestic bills increased by less than inflation

Funding world class infrastructure — Working with stakeholders to develop a sustainable funding model

Connected thinking — Strategic partnerships established with key suppliers

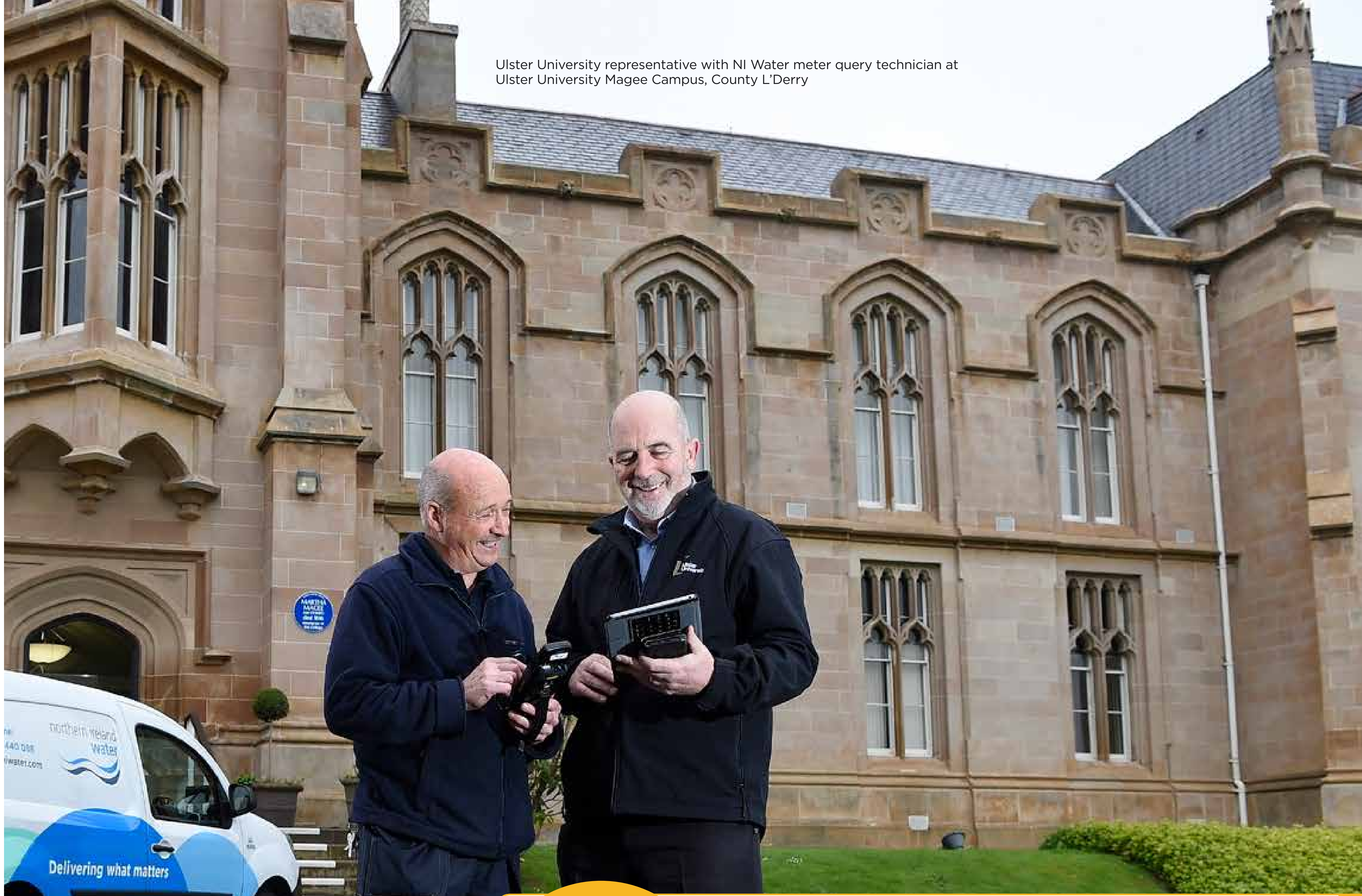
Strategic threats/opportunities

ST1 ST2 ST5 ST6 SO1 SO3

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Levels of service to our customers	Unit of measurement	Customer promise	Target 2018/19	Actual 2018/19	Pass/ Fail	Target 2019/20
Overall performance assessment score	Number	£	227	245 (Our best ever performance)	Pass	232



Ulster University representative with NI Water meter query technician at Ulster University Magee Campus, County L'Derry

Keeping bills affordable

The amount by which we can increase customer tariffs is determined by the Utility Regulator. We are acutely aware of our responsibility to strike a balance between the need to generate sufficient income to allow us to continue delivering our services and minimising impact on business customers. We therefore limited the increase for 2019/20 to 2.7% on average. This means non-domestic customers will still pay 1.5% less, in real terms, for their water and sewerage services in 2019/20, than they did when the current PC21 price control period began in 2015.

NI Water, like other businesses, has been impacted by rising inflation, which increases the cost of providing water and sewerage services to customers. Whilst the cost of providing services to our customers has risen, we have been able to absorb some of this and minimise the increase in our tariffs. We have worked closely with the Utility Regulator and the Consumer Council to ensure that any increase remains as low as possible, and continues to represent good value for money.

Funding world class infrastructure

NI Water is in the unique position of being the only publicly funded, regulated utility in the UK. While this has some benefits in relation to access to low cost debt financing for example, it is posing challenges in relation to being able to support a sustainable funding model.

As a Government Owned Company and a Non-Departmental Public Body, NI Water is subject to public expenditure cuts and uncertainty over funding. While this may be manageable for a short period, the continued underfunding of the Utility Regulator's regulatory settlements places progress on efficiencies at risk and could result in tangible impacts on service delivery, the local economy and the environment.

Over the past 15 years the capital budget made available for investment in sewerage services has not been able to keep pace with the investment required to provide increased capacity to facilitate growth or achieve more stringent standards to achieve water quality targets. As a result, many of our sewerage networks and treatment plants are now having to operate at or beyond their design capacity, limiting opportunities for new connections and constraining economic development. We are working with principal stakeholders to agree a capacity framework against which future applications for new connections will be assessed. This includes communicating these constraints spatially so that this can inform development plans by others.

A sustainable long-term business model for NI Water is essential to the economy of Northern Ireland. It is vital if we are to continue to invest efficiently in infrastructure and improve the essential services we deliver to our customers to ensure they are on a par with our counterparts in England and Wales.

We continue to work with principal stakeholders to identify a more efficient funding model and to continue to highlight the disadvantages of the current model.

Antrim used water treatment works, County Antrim

Connected thinking

NI Water's procurement teams in partnership with InterTrade Ireland hosted their most successful Supplier Engagement event to date. This showcase event attracted over 200 existing and potential new suppliers across the full range of goods and services procured by NI Water. The event offered companies the opportunity to meet members of the procurement teams and four of NI Water's strategic contractors.

A new feature at this year's event was the opportunity for potential suppliers to hear first-hand from some of our incumbent suppliers what it is like to work with NI Water and, how winning a contract with NI Water has benefitted their businesses.

Another feature of this year's event was the training zone, this was well attended and was aimed at helping companies better understand the tendering process, the eTendersNI portal and NI Water's approach to contract management.

Attendees appreciated the opportunity to network with each other and new business relationships were created as people waited to talk to procurement and NI Water's strategic contractors.

NI Water spends around £235 million per year with our contractors for goods, services and capital works. About 80% of this is invested in local businesses; for every £1 that NI Water invests, the wider knock-on effect in the local economy is almost double.

NI Water staff and one of the suppliers at the event

Suppliers speaking with NI Water's procurement teams

https://www.youtube.com/watch?v=Cip3_4tkmgM

The implementation of our customer promises is measured using a number of strategic performance indicators and managed using an opportunity/threat management model.

Customer promise	Strategic performance indicator (SPI)	Strategic threat (ST)/ Strategic opportunity (SO) Read more pg54
We provide you with customer service you value and expect Read more pg20	Customer contacts: telephone contacts received	ST1 ST2 ST4 SO1 SO2 SO3 SO4
We provide you with clean, safe water to drink Read more pg24	Water quality compliance: overall compliance with drinking water regulations (%)	ST1 ST3 ST4 ST6 SO1
We supply you with the water you need Read more pg28	Supply interruptions: number of properties experiencing unplanned and unwarned interruptions (expressed as a percentage of households) in excess of: (a) 6 hours (b) 12 hours (c) 24 hours	ST1 ST2 ST3 ST4 ST6 SO1
We take care of your used water so it doesn't pollute your environment Read more pg32	Used water compliance: percentage of population equivalent (%)	ST1 ST2 ST3 ST4 ST6 SO1 SO3
We provide excellent service by having the right people doing the right thing for you Read more pg36	Employee engagement: percentage of employees engaged	ST1 ST2 ST3 ST4 ST5 ST6 SO2 SO4
We want to protect and enhance the natural environment Read more pg40	Cumulative number of sustainable used water treatment works solutions delivered	ST1 ST2 ST3 SO3 SO4
We adapt to deal with the effects of climate change Read more pg44	Percentage of NI Water's power usage derived from renewable sources	ST1 ST2 ST3 ST4 SO1 SO3 SO4
We seek to give you value for money Read more pg48	Overall performance assessment score	ST1 ST2 ST5 ST6 SO1 SO3

Strategic threat (ST)	Strategic opportunity (SO)
ST1 Governance model and capital investment	SO1 Customer service improvement and innovation
ST2 Business performance and efficiency savings	SO2 Wellbeing
ST3 Asset resilience and climate change	SO3 Living with Water Programme
ST4 Data integrity and cyber risk	SO4 Environmental enhancement
ST5 Pension fund	
ST6 Health and safety	

Risk and resilience

Increasingly, NI Water faces downside risks (threats) which are unavoidable but could have a significant impact on our business. For example, legislation which makes NI Water responsible for the actions of organisations in our supply chain, uncertainty regarding funding, Brexit, cyber-attacks and climate change / extreme weather events.

While management of these threats is to a large extent outside the control of NI Water, we recognise the need to build a resilience framework to reduce the impact of these external factors.

NI Water manages risks (both threats and opportunities) in line with our integrated risk and resilience framework on an organisation-wide basis both in terms of pre-incident planning and post incident response and recovery.

NI Water's integrated risk and resilience model

NI Water's integrated risk and resilience framework

Integrated

The framework and the model outline the requirement for risks to be managed on a cross-directorate basis and with input from external partners where required (e.g. supply chain, strategic partners, external organisations etc.).

Resilient

NI Water recognises that there are some unavoidable risk factors, which are external to NI Water. As it is not within NI Water's ability to manage these risks to within the risk appetite, a resilience culture must be adopted such that NI Water is prepared for the risks being realised.

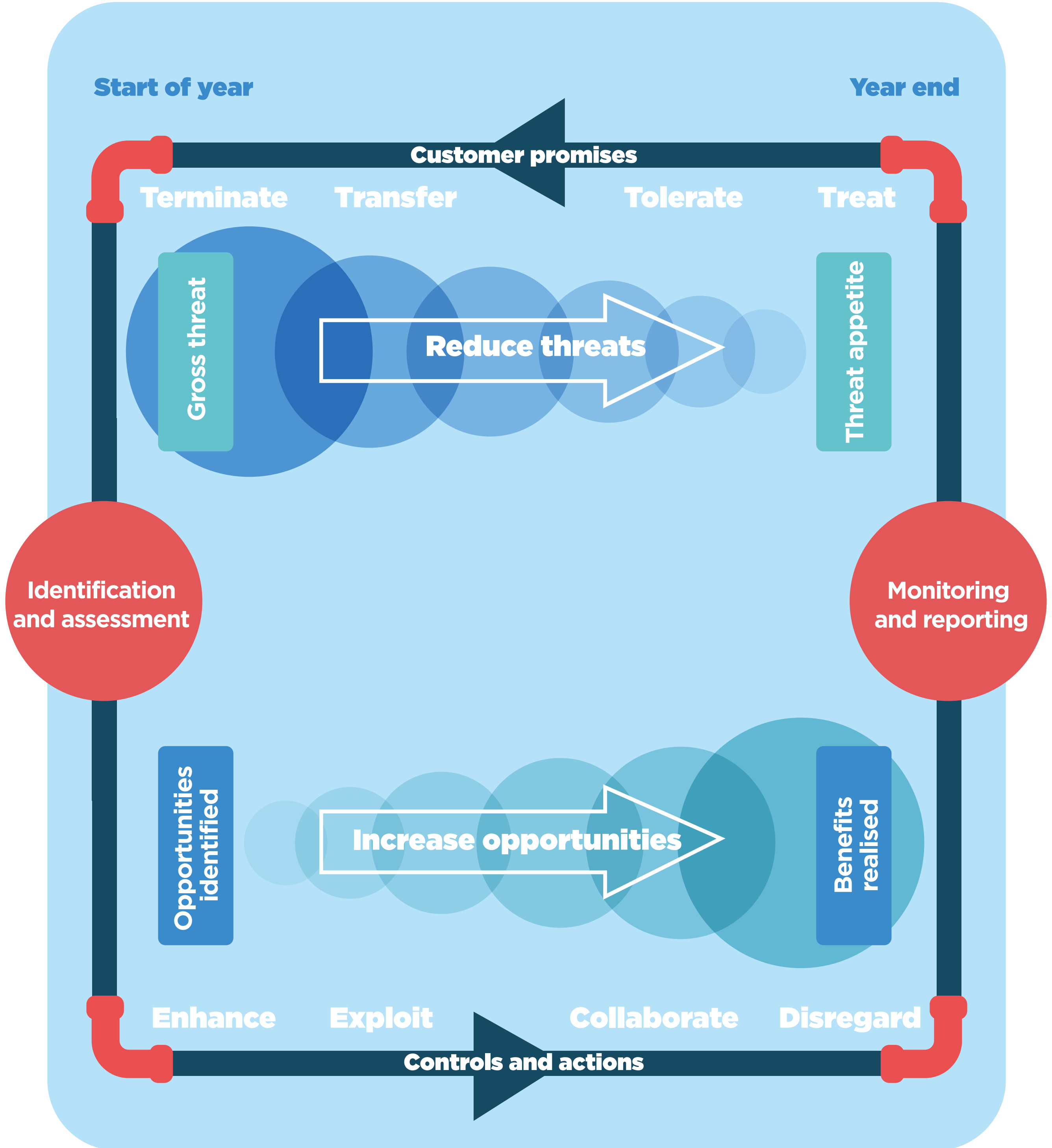
NI Water defines resilience as 'the strategic and organisational capacity of NI Water to resist, respond to, and recover from disruptive threats both foreseen and unforeseen'.

A resilience culture within NI Water means that all employees have the clear mind-set that it is not a case of 'if' an incident occurs, rather it is 'when' that incident does occur. It results in plans being put in place to ensure that, when an incident does occur, NI Water is adequately prepared so that disruption is minimised and the organisation can return to 'business as usual' in the most effective and efficient way possible. In order to manage risk and further develop our resilience, all corporate risk maps now have a section that records the actions to be put in place to ensure that NI Water is continually improving its resilience at every level of the organisation.

Strategic threats and opportunities

NI Water's approach to risk management is to have a risk culture where employees and partners are aware of how they contribute towards the customer promises. There is a collaborative approach to analyse the downside risk (threats) that could have a detrimental impact on the achievement of the customer promises but also to consider the upside risk (opportunities) towards deriving better outcomes for customers, as shown below:

NI Water's approach to risk management



Through a process of reviewing emerging risks, benchmarking and workshops held on a business-wide basis, corporate threats and opportunities are established at the start of the year.

The threat and opportunity and its associated risk grading and risk appetite are approved by the Board. The Board receives a monthly progress report on the management of risks towards the projected risk appetite for each individual risk. During the year, the Board had a Risk Appetite workshop to consider NI Water's risk appetite against a variety of risk themes. The agreed risk appetites will be used as a basis to track progress and deliver on our corporate values.

The Risk Committee, a sub-committee of the Board, considers the risk maps throughout the year, reviewing the effectiveness of clearly defined controls and the completion of actions towards the delivery of expected outcomes and the appetite level.

The Audit Committee, also a sub-committee of the Board, considers financial risks on a regular basis and at year end holds a joint meeting with the Risk Committee to consider the overall effectiveness of NI Water's system of internal controls and risk management.

The Executive Committee meets on a monthly basis to consider corporate threat and opportunity maps and the completion of actions within agreed timelines.

Corporate risk maps are linked to directorate, programme and project threats and opportunities, and business-wide groups either have or are being encouraged to have updated 'live' risk registers such that risk management is integrated into the business.

Page 53

Read more about risk management.

Emerging from the corporate risk maps are a number of significant strategic threats and opportunities (described as principal in the UK Corporate Governance Code). For each strategic threat or opportunity, we have identified the related customer promise and the change in the level of threat or opportunity over 2018/19.

Strategic threat	Customer promise	Level of threat[5]
ST1 Governance model and capital investment	£	=
ST2 Business performance and efficiency savings	£	=
ST3 Asset resilience and climate change		▲
ST4 Data integrity and cyber risk		▲
ST5 Pension fund	£	=
ST6 Health and safety	£	▲
Strategic opportunity	**Customer promise**	**Level of Opportunity[6]**
SO1 Customer service improvement and innovation	£	▲
SO2 Wellbeing		=
SO3 Living with water programme	£	=
SO4 Environmental enhancement		▲

[5] This column represents a change in the level of threat compared to what was reported in 2017/18. An upward arrow means that the level of threat has increased when compared to the prior year.

[6] This column represents the change in the level of opportunity compared to what was reported in 2017/18. An upward arrow means that the potential benefits to be gained from this opportunity have been increased.

Strategic Report

Strategic threats

ST1 Governance model and capital investment

NI Water has advised both the NI Executive and DfI of the implications of not having access to a secure medium and long term funding settlement.

The absence of a local Executive government represents a potential threat not only in relation to the medium and long term funding but also in relation to the delivery of large scale projects.

Background to the threat

The current arrangements for the governance of NI Water as both a regulated GoCo and a NDPB bring with it certain challenges, not least the short, medium and longer term operational and capital funding requirements. The current system of setting the capital programme within the Utility Regulator's price setting process does not align with the annual cycle of public sector funding. We have had to adjust the PC15 Final Determination output targets to reflect a shortfall in public expenditure from 2015/16 to 2018/19.

NI Water is an asset intensive business and medium and long term planning is essential to improve services for customers today while investing to safeguard services for future customers. The uncertainty over funding for capital investment adds complexity and inefficiency to longer-term asset resilience and makes it increasingly difficult for us to maintain momentum to complete our programmes of work.

Managing the threat

NI Water is continuing to work closely with DfI and the Utility Regulator to make the case for certainty of funding. In the meantime, NI Water ensures that the implications on the delivery of our services as a consequence of funding constraints are fully analysed, managed and communicated to the public in a clear and responsive manner.

NI Water is taking action to ensure that DfI has the necessary information to inform the government on the impact of funding shortfalls for the remainder of PC15 and required investment into PC21.

ST2 Business performance and efficiency savings

The success of NI Water's operations depends on a number of factors relating to business performance, including the ability to deliver on the anticipated cost and efficiency savings over PC15.

Background to the threat

Increasingly, NI Water faces external risk factors over which it has limited control. These include energy costs; climate change resulting in adverse weather incidents (flood, drought etc.) which increase operating costs and can damage our assets; unlawful acts by third parties, including pollution; sabotage or other related acts; as well as a downturn in the economy.

In addition, there is ongoing uncertainty regarding the level of funding that NI Water is likely to receive year on year coupled with ongoing funding cuts. These factors are all having an increasingly negative impact on our business and on our performance.

The current funding model means that NI Water is vulnerable to cost shocks, e.g. if there is an adverse incident, NI Water has to respond, however the funding for this recovery is not guaranteed.

While the Utility Regulator concluded in 2017/18 that NI Water had performed well against a backdrop of reduced public expenditure funding and was broadly delivering against the majority of the Final Determination targets, the risk of not being able to deliver is increasing. The level of efficiencies required over the remainder of PC15 are presenting challenges in terms of delivering these savings and at the same time, improving service performance.

In addition, the current uncertainty regarding the availability of funding for the remainder of PC15 and into PC21 may create difficulties in terms of development of future capability.

Managing the threat

NI Water continues to work with the Utility Regulator and to highlight to DfI short, medium and long-term targets and funding requirements including the approval of strategic capital projects to reduce the threat of adverse impacts on customers. NI Water is in the process of delivering business change initiatives that are critical to achieve the PC15 targets, deliver cost savings and provide the best possible service to our customers.

The Utility Regulator has published draft PC21 Business Plan Information Requirements. A key change from PC15 is the identification of investment scenarios including an unconstrained scenario and the company's view of affordability. Our plan will make the case for necessary investment in water and sewerage services. This will include addressing our top asset risks, addressing development constraints and ensuring adequate investment in technology enablement right across the organisation.

ST3 Asset resilience and climate change

The failure of our assets could have a significant impact on customers, the environment and our financial performance.

Background to the threat

NI Water inherited an aged asset base and much investment is required to bring it to a comparable level by UK and European standards. The business requires significant capital investment and a maintenance programme for water and used water networks and treatment facilities in order to comply with regulatory and environmental performance standards. There is a threat that NI Water may suffer a major failure in its assets arising from an inability to deliver the capital investment programme or to maintain its systems.

Growth / development in multiple used water catchments is increasing pressure on this aged asset base, and consents are likely to tighten. Funding levels below the investment required for the remainder of PC15 restrict NI Water's ability to address used water treatment works headroom issues and used water network constraints.

This could cause a significant impact to our customers due to deterioration in the quality of drinking water, interruptions to supply and management of used water services, including an adverse impact to the environment. This has already started to manifest itself through current development constraints in certain areas of Northern Ireland.

Managing the threat

NI Water continues to work with the Utility Regulator and DfI on medium and long term funding arrangements to make further improvement to its assets and take opportunities to manage exposure to threats associated with climate change. NI Water will continue to prioritise maintenance over enhancement plans so that it is more robust and reliable and will continue consider innovative ways to improve asset resilience.

NI Water's business continuity management framework and major incident plan are continually being updated to reflect best practice and key learning points from annual testing, exercises and previous major incidents. Our Major Incident Plan has been activated several times in 2018/19 and has greatly reduced the impact on our customers and employees. The Business Continuity Plans include consideration of alternative accommodation, alternative systems and alternative suppliers. An information technology disaster recovery plan is in place to reduce the impact of adverse events and to manage recovery to 'business as usual'.

NI Water received the European Risk Management Award 2018 for Emerging Risk Initiative of the Year

ST4 Data integrity and cyber risks

The robustness and accuracy of data, increasing regulation, changes in technology and the impact of cyber crime may have a significant disruption to the quality of service that customers have come to expect.

Background to the threat

The General Data Protection Regulation (GDPR) brings increasing regulatory requirements in respect of privacy and the storage and retention of personal information. The Network and Information Security (NIS) Regulation, mandatory for Operators of Essential Services establishes a set of principles to improve the security of network and information systems across the UK.

Cyber crimes continue to increase both in terms of frequency and disruptive potential and there is worldwide recognition that it is not a matter of 'if' a cyber-attack occurs but 'when'. In addition, NI Water recognises that in seeking innovative technology to improve services and minimise costs, there is a need to be mindful of potential cyber-attacks.

A compromise to NI Water's systems could lead to disruption to services, interruption to computer control systems and impact on data integrity. Equally there could be damage to the environment if for example there is a cyber-attack or through accidental or malicious intent.

Managing the threat

NI Water is continually making improvements in its information governance to manage the quality of information to support service delivery and policy making.

Management is continually working to improve cyber resilience through updating of systems controls, compliance with IT system supplier updates and through training and awareness programmes. An action plan has been developed in response to an external report on cyber security readiness for operational technology and significant work is ongoing in this regard.

NI Water has recently completed the NIS Regulation Self-Assessment Framework for submission to the Competent Authority in May 2019. Any additional work required to reach our desired level of NIS compliance will be captured within the cyber action plan.

ST5 Pension fund

NI Water Limited operates a funded, defined benefit pension scheme. Given the nature of the NI Water Limited Pension Scheme, NI Water Limited is exposed to the threat of paying unanticipated additional contributions to the Scheme.

Background to the threat

The threats in relation to the pension scheme include higher than expected actual inflation; lower than expected investment returns; the threat that movements in the value of the Scheme's liabilities are not met by corresponding movements in the value of the Scheme's assets; and members living for longer than expected.

Managing the threat

The Pension Trustee's investment strategy is to invest the majority of the Scheme's assets in a mix of equities and corporate bonds. This is in order to strike a balance between maximising the returns on the Scheme's assets and minimising the threats associated with lower than expected returns on the Scheme's assets.

A triennial valuation of the pension scheme as at 31 March 2017 was completed by the Pension Scheme Trustees in June 2018. The valuation has reported a small deficit in the funding of the scheme. The Company has agreed to higher Employer's Contributions to the Scheme effective from April 2017 which have been accrued in the financial statements.

Further information on accounting for the pension scheme is provided at page 68 and Notes E2 and G3 to the Statutory Accounts. The Trustee is required to regularly review the investment strategy in light of the revised term and nature of the Scheme's liabilities. This includes consultation with NI Water Limited.

NI Water Limited is continuing to engage with the pension scheme trustees and DfI on pension scheme costs.

ST6 Health and safety

NI Water has a 'zero harm' ambition for its employees, contractors, customers and the environment.

Background to the threat

NI Water applies a zero tolerance approach towards health and safety. There is significant oversight and monitoring of health and safety, by the Executive Committee, Risk Committee and the Board.

During the year, a comprehensive internal review of companywide health and safety arrangements was undertaken resulting in a number of health and safety non-compliance issues being identified. This along with a number of preventable health and safety incidents during the year which have led to long term absences has necessitated the need to continue managing health and safety as a threat.

NI Water also recognises that there is further work to be undertaken in relation to the behavioural aspects of health and safety and is committed to doing this.

Managing the threat

A new comprehensive Health and Safety Strategy (2018 – 2021) and associated three year action plan has been endorsed by the company and is being progressed. The action plan was subsequently amended and includes additional areas of work for the Safety, Health and Environment Team to action in 2019. The Strategy includes four key areas of work, including: Health and Safety Risk, Communication and Information, Monitoring and Inspection and Culture Development.

This work is supplemented with a rolling programme of site safety visits by Directors, Line Managers and the Safety, Health and Environment Team.

Strategic Report

Strategic opportunities

SO1 Customer service improvement and innovation

Innovation in service delivery and business processes through enabling technology.

Background to the opportunity

Through cooperation with other utilities, business partners and universities and in-house development, we continue to support and implement new processes and technologies to improve customer experience and efficiency in service delivery.

Managing the opportunity

We continue to implement actions from our digital programme. During 2018/19, we established our Situational Awareness Team to analyse and interpret information from multiple sources in real-time to give a holistic overview of how our assets are performing, our customer contacts and work being undertaken. This has had the benefit of enhancing our updates to customer in relation to supply interruptions by providing more timely and accurate information.

NI Water is also seeking to get smarter by the use of better and more effective data analytics. This will support /assist NI Water to detect issues before customers are impacted. This could potentially prevent a service failure before it occurs or at least proactively inform customers of a service failure.

These innovative improvements will assist NI Water to better use information to drive optimum services and improve the quality of services for customers.

SO2 Wellbeing

Opportunity to increase the overall wellbeing of employees.

Background to the opportunity

We have taken the opportunity to put in place a highly innovative health and wellbeing programme, which takes into account our workforce demographics, our engagement survey results and the business benefits of enhancing the wellbeing of employees. Our programme strategically focuses on improving the physical and mental wellbeing of employees and supports our attendance and engagement targets with initiatives to attract and retain talent, reduce sick absence, improve wellness and health awareness, support older workers and increase engagement in line with NI Water's strategic objectives.

Managing the opportunity

Our health and wellbeing team has delivered a programme that includes initiatives such as retirement seminars to support our employees (aged over 50) in the transition from work to retirement, dedicated workplace counselling on site, mental health courses and mental health training. We do this with the help of Health and Wellbeing Champions and mental health First Aid champions who meet regularly to input and champion the health and wellbeing programme. The quality and impact of our health and wellbeing programme has been recognised externally, as NI Water has been named winner of the Outstanding Human Resources Initiative category at the 2018 Global Business Excellence awards and has been shortlisted for over five Health and Wellbeing awards in 2019.

Over 1,000 employees have participated in our Cares Challenge volunteering programme – making it one of the largest corporate volunteering schemes in Northern Ireland. In addition, we publish the Annual Wellbeing Calendar of diverse monthly event/themes linked to significant national health campaigns.

SO3 Living with water programme

Opportunity to contribute, along with other organisations to the 'Living with water programme', to the improvement of Belfast strategic drainage system to meet increasing population and business needs.

Background to the opportunity

In July 2014, the NI Executive agreed to develop a strategic drainage infrastructure plan for Belfast, known as the Living with Water Programme which is led by DfI. The plan aims to protect against flooding, enhance the environment and support economic growth by improving capacity for new connections.

A programme board has been established and includes representatives from three Departments: DfI, which is responsible for water, rivers and roads; DoF, which is responsible for prioritising the resources available to Northern Ireland; and DAERA which is responsible for the environment. NI Water actively participates in the programme, together with the Utility Regulator, Strategic Investment Board and Belfast City Council. The work of the programme is initially focused on greater Belfast due to the particularly urgent need for an agreed plan for that area. The programme is also developing an integrated drainage investment planning guide for use throughout Northern Ireland.

Managing the opportunity

NI Water's participation in the programme provides an opportunity to develop the catchment based multi-agency and sustainable solutions needed to achieve key outcomes included within the draft Programme for Government and upgrade the sewerage networks and six used water treatment works that discharge into Inner Belfast Lough. The upgrades need to be undertaken in a way that Government and NI Water can afford, and which minimises disruption during construction. NI Water's investment appraisals to inform the plan are already helping to identify and manage risks and make the best use of the funding over PC15 and beyond. Implementation of most of the proposed programme capital investments that relate to NI Water's assets will require funding over and above that likely to be made available through the price control model. It is critical that the source of funding is identified. NI Water needs to understand this funding route by September 2019 in order that PC21 adequately reflects the infrastructure needs and impact on tariff.

SO4 Environmental enhancement

Opportunity to improve our environmental impact for the good by improving resilience in our assets, sustainability, green initiatives and energy efficiency.

Background to the opportunity

This opportunity relates to the efficient management of capital expenditure and asset maintenance expenditure to deliver environmental improvements.

Managing the opportunity

NI Water has taken the opportunity to improve resilience in our assets to deal with extreme weather events and exploiting Corporate Social Responsibility, sustainability, green compliance and energy efficiency. We can demonstrate significant progress already; including the completion of the integrated constructed wetlands at Stoneyford and Castle Archdale, which are performing well, and successful operation of Dunore Solar Farm. Our first Nereda used water treatment works at Dungannon, which is a large sustainable process, has now been commissioned.

NI Water's education programme is a priority. We have an obligation to promote health whilst safeguarding the environment and our education programme aims to encourage good water practices, which ultimately impacts positively on the environment.

Brexit – for noting

There are still significant uncertainties regarding Brexit including the timing and the nature of deal which may be reached. We have considered the threats and opportunities surrounding Brexit and have established an internal working group to manage the impact of Brexit. We have also worked closely with Water UK and DfI to fully understand the impact to the water sector.

The threats and opportunities surrounding Brexit do not form part of NI Water's strategic threats and opportunities but are managed as part of NI Water's risk management process.

Our finances explained

Revenue

Government subsidy

We receive subsidy from the DfI in lieu of deferred domestic charges. In 2018/19 we received a subsidy of £299.9m.

Bills

We bill non-domestic customers which generated £79.2m of revenue in 2018/19 and Road Drainage charges of £21.9m from DfI.

Other income

Other forms of income were £15.4m in 2018/19.

Day-to-day operating costs

Our day-to-day running costs totalled £275.5m in 2018/19. These costs include staff, power, rates, hired and contracted services.

Government loans

We borrow from the DfI to help fund our capital investment programme. £64m was borrowed in 2018/19.

Investment

Investment in new assets and on our network totalled £178m in 2018/19.

Operating profit

Operating profit (revenue less day-to-day operating costs) was £141.7m in 2018/19.

Financing our investment

Interest on our borrowings from DfI £49.3m and our Public Private Partnership liabilities £12.6m comprised the majority of our net finance charges of £61.0m in 2018/19.

Profit before tax

The profit before tax was £80.7m in 2018/19.

Corporation tax

We have not paid any corporation tax due to capital allowances, which defer our tax to future years, when the benefits of the investments are realised. The tax charge was £14.5m in 2018/19.

Profit after tax

The profit for the year was £66.2m.

Dividend

A dividend of £26.5m was paid to the DfI in 2018/19.

Reinvestment of profit

Any remaining profits reduce the loans required from DfI.

Financial performance

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

- Statutory Group Accounts prepared under International Financial Reporting Standards (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 used water 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 88 to 161
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 formation of the Group can be found at page 109.

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

The £66.2m 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 (SOCI) as presented on page 91 is summarised below.

Summary Consolidated Statement of Comprehensive Income

	Year to 31 March 2019 £m	Year to 31 March 2018 £m (Restated)
Revenue	**416.4**	403.6
Results from operating activities	**141.7**	128.4
Net finance charges	**(61.0)**	(62.2)
Profit before tax	**80.7**	66.2
Income tax expense	**(14.5)**	(13.3)
Profit for the year	**66.2**	52.9
Other comprehensive (income) / expenditure, net of income tax	**(9.4)**	41.2
Total comprehensive income for the period	**56.8**	94.1

Revenue has been stated excluding the value of adopted assets (£34.3m) (2017/18: £31.1m) following the adoption of IFRS 15 "Revenue from Contracts with Customers". The guidance has been applied retrospectively and therefore the comparatives have been restated. 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 (£3.1m (2017/18: £2.9m). See Statutory Accounts Note C6 for further information. The restatement of revenue and the deferred credit release has also given rise to a restatement in 2017/18 of the income tax charge reducing from a £18.1m charge to £13.3m.

Movement in total consolidated comprehensive income for the period

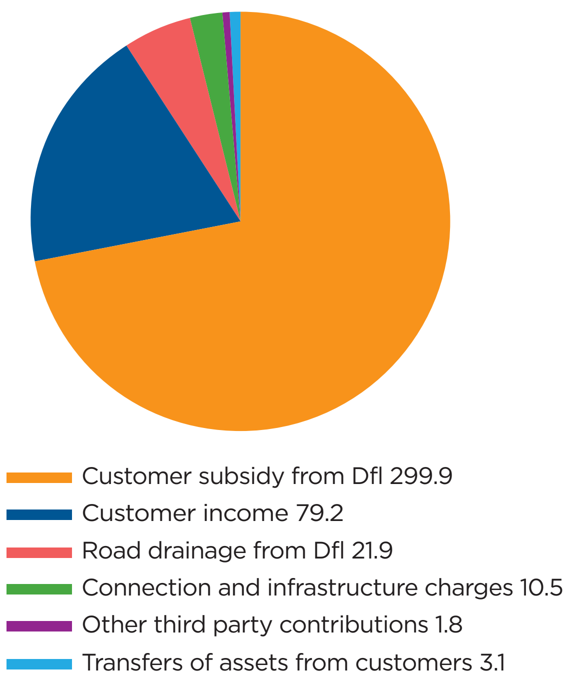
Revenue

Domestic consumers are not charged directly for water and used water services. As a result, NI Water is dependent on Government subsidy for around 72% of its total revenue.

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

Revenue was £416.4m for the year to 31 March 2019 (2018: £403.6m). Included in revenue was £321.8m (2018: £311.5m) received from DfI, being subsidy of £299.9m (2018: £290.5m) and road drainage charges of £21.9m (2018: £21.0m). All the revenue was in relation to NI Water Limited as subsidiary revenue was all within the Group.

Sources of revenue 2018/19 (£m)

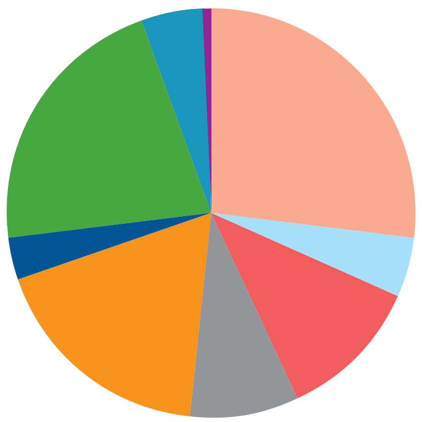


See Statutory Accounts Note C1.

Operating activities

Operating expenses in 2018/19 of £275.5m (2018: £276.2m) decreased from last year. The decrease primarily resulted from the 2017/18 write-down on acquisition of £9.8m to recognise the effective settlement of the pre-existing PPP contract between NI Water Limited and Dalriada Water Limited. This was partially offset by higher costs in 2018/19 of power and materials. Results from operating activities before interest for the year was £141.7m (2018: £128.4m).

Operating expenses 2018/19 (£m)



- Depreciation: 82.2
- Staff costs: 65.5
- Hire and contracted services: 54.5
- Power: 34.3
- Rates: 28.4
- Own work capitalised: (15.2)
- Raw materials and consumables: 14.5
- Other operating expenses: 10.3
- Amortisation of goodwill 1.0

NI Water is one of the largest users of electricity in Northern Ireland. We spent around £34.3m on power in 2018/19.

Finance income and costs

The net finance costs are primarily due to interest on our borrowings of £49.3m (2018: £44.7m) and on our Public Private Partnership (PPP) liabilities of £12.6m (2018: £17.0m) and net finance costs on the pension fund of £0.5m (2018: £1.6m) partly offset by £1.1m (2018: £1.1m) fair value amortisation in the value of financial liabilities and fair value impairment of senior loan debt and bank interest received of £0.2m (2018: £0.1m). See Statutory Accounts Note B2.

Taxation

The tax charge for the year was £14.5m (2018: £13.3m). The effective tax rate for the year to 31 March 2019 was (18%) (2018: 20.1%). See Statutory Accounts Note F1.

Given the capital allowances available on our capital investment programme we are not presently required to pay cash tax in relation to our core revenue streams.

Pension scheme actuarial loss

In 2018/19 there was an actuarial loss of £9.4m (2018: £41.2m gain). This arose due to changes in actuarial assumptions. See page 68 and Statutory Accounts Note E1 and G3.

Distributions

The Board will consider a proposal to declare a dividend of £28.3m in August 2019 (2018: £26.5m). 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 2019 as presented on page 89 is summarised below. Due to the adoption of IFRS 15 and the change in accounting treatment of adopted assets the Financial position at 31 March 2018 has been restated. See Statutory Accounts Note C6 for further information.

Total assets increased by 4.5% to £3,210.5m (2018: £3,074.5m).

Our net debt[7] figure was £1,333.1m at 31 March 2019 (2018: £1,283.6m).

Gearing (the ratio of net debt to equity and net debt) was 54.7% (2018: 54.5%).

Summary Consolidated Statement of Financial Position

	At 31 March 2019 £m	At 31 March 2018 £m (Restated)
Total non-current assets	**3,152.1**	3,022.6
Total current assets	**58.4**	51.9
Total Assets	**3,210.5**	3,074.5
Equity	**1,102.5**	1,072.3
Total non-current liabilities	**1,975.8**	1,865.1
Total current liabilities	**132.2**	137.1
Total liabilities	**2,108.0**	2,002.2
Total equity and liabilities at 31 March	**3,210.5**	3,074.5

Liquidity

Operating activities generated a net cash inflow of £222.7m (2018: £205.4m). Net cash outflows of £185.6m (2018: £168.3m) related to investing activities. Net financing activities created a cash outflow of £30.8m (2018: £28.2m).

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 £187.9m (2018: £160.4m), acquisition of subsidiaries net of cash acquired of £nil (2018: £9.7m), proceeds from the sale of property, plant and equipment of £0.6m (2018: £1.5m), interest received of £0.2m (2018: £0.1m) and grants received of £1.5m (2018: £0.1m).

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

[7] Refer to Notes A8 and B1 in the Statutory Accounts. Net debt consists of loans from DfI of £1,146.6m (2018: £1,082.6m), external loans relating to subsidiaries of £82.8m (2018: £87.4m), derivative financial instruments of £9.8m (2018: £10.3m); and finance leases of £112.7m (on consolidation Alpha finance lease excluded) (2018: £115.7m) less cash and cash equivalents of £18.8m (including £11.1m from consolidated entities), (2018: £12.4m).

Pension funding

The pension scheme was valued at a liability of £35.6m at 31 March 2019 (2018: liability of £22.8m). This was made up of a total market value of assets of £238.3m (2018: £233.4m) less actuarial value of liabilities £273.9m (2018: £256.2m). The increase in the liability has been driven primarily by the effects of changes to demographic and financial assumptions including higher inflation and lower discount rates. See Statutory Accounts Notes E1 and G3.

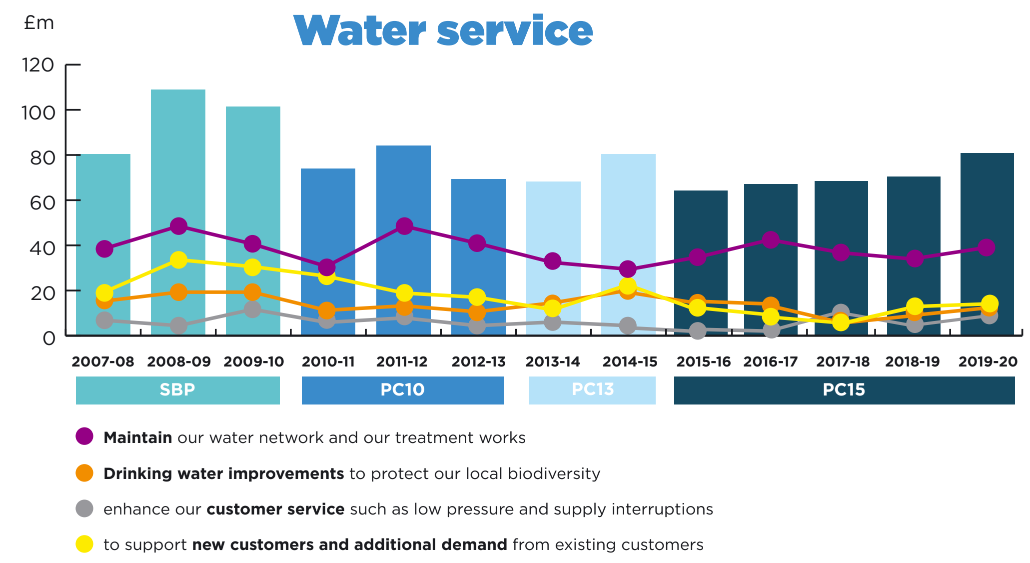
NI Water's pension scheme is a separate legal entity which is run by a Board of Trustees.

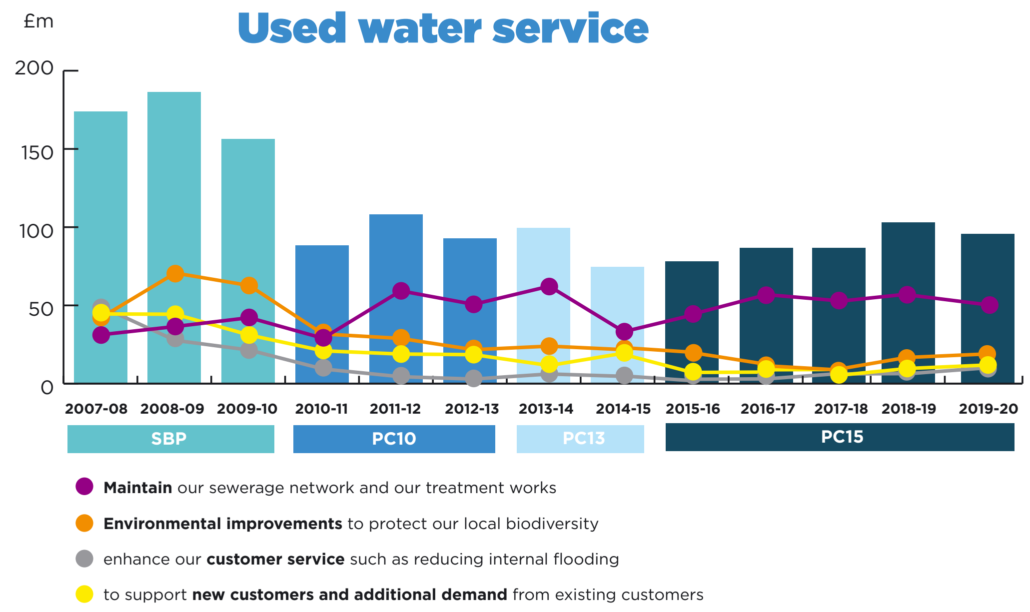
Investing in our water and used water infrastructure

We have invested £2.3 billion in Northern Ireland's water and sewerage infrastructure since our formation in 2007/08.

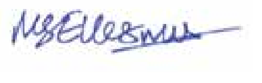
Around £171m of capital investment was delivered during 2018/19. £97m was invested in maintaining the current assets and a further £74m was invested to deliver quality enhancements, improve service and accommodate growth. Investment of £176m is planned for 2019/20.

Investment in 2018/19 included the completion of six Used water treatment works, remediation of eight unsatisfactory intermittent discharges and laying approximately 167km of new, renewed and relined water mains.





This Strategic Report was approved by the Board of Directors on 20 June 2019 and signed on its behalf by Mark Ellesmere, Company Secretary.



Mark Ellesmere
Company Secretary
20 June 2019

Control panel at Killylane water treatment works, County Antrim

Governance

Corporate governance

Chairman's introduction

I am pleased to present the Corporate Governance Report for 2018/19. This report describes the key features of NI Water's corporate governance structure and compliance given NI Water Limited's status as a GoCo under the Companies Act 2006 and as a NDPB sponsored by DfI. The Board is committed to the principles of good corporate governance.

Compliance statement

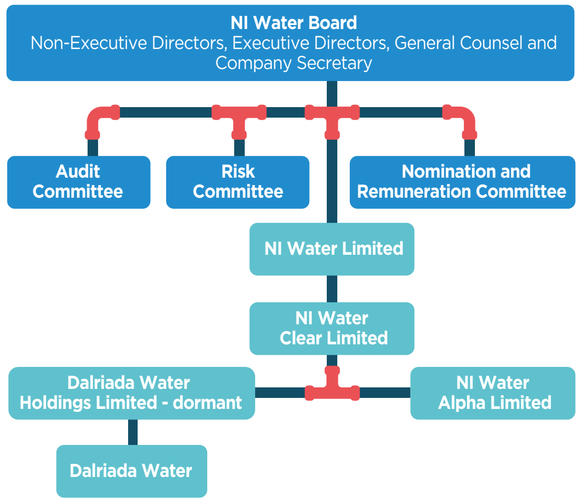
The Board has taken into consideration the governance arrangements established between NI Water Limited and its sole shareholder (DfI) through the Management Statement and Financial Memorandum (MSFM) and the relevant governance provisions in the DoF guidance entitled 'Managing Public Money Northern Ireland' (MPMNI).

The Board considers that, during the year and up to the date of this report, NI Water has complied with the main principles of corporate governance that applies to NI Water as set out within the MSFM. NI Water seeks to emulate best practice corporate governance arrangements as set out in the 'UK Corporate Governance Code' and the MSFM draws on the same but also draws on 'Corporate Governance for Central Government Departments: Code of Best Practice Northern Ireland' (Governance Code). However, it should be noted that the Company's commercial freedoms are restricted by the constraints of the Public Expenditure (PE) system and the provisions set down in the MSFM. This includes appointment, re-appointment or removal of the external auditor, arrangements for appointment and termination of Board Members and their remuneration.

In November 2017, NI Water Limited acquired a number of companies which are contracted to provide bulk drinking water supplies under a Public Private Partnership arrangement. Further information on the formation of the Group can be found at page 109. An independent governance review has been undertaken to provide the NI Water Board with assurance that post completion governance arrangements for subsidiaries within the NI Water Group are appropriate and in line with good industry practice and NI Water Limited's regulatory licence.

Board and Executive Committee

The Board and Executive Committee structure is shown below:



Operation of the Board

The Board has considered the status of the Non-Executive Directors over the year and considered them to be independent in character and judgement.

The operation of the Board and its responsibilities are outlined in the MSFM:

https://www.niwater.com/sitefiles/resources/pdf/policy/msfmsigned2017.pdf

Board committees

A committee structure is in place to assist the Board in the discharge of its responsibilities. The Terms of Reference for each Committee and the terms and conditions of appointment of Non-Executive Directors may be obtained on written request from the Group Company Secretary at the address given on the back cover of this report. The membership of the Board Committees is set out below:

Committee	Membership
Audit Committee	Peter McNaney, CBE (Chair)*
	Jim McCall
	John Rae
	Maurice Bullick**
Risk Committee	John Rae (Chair)
	Kingsley Donaldson
	Trisha McAuley, OBE
	Maurice Bullick**
Nomination and Remuneration Committee	Dr Leonard J. P. O'Hagan, CBE DL (Chair)
	Peter McNaney, CBE
	John Rae

*Peter has been appointed as the Senior Independent Director as defined within the UK Corporate Governance Code.

** Co-opted Member from 20 July 2016 to ensure that the Audit Committee has recent and relevant financial experience. Maurice is the Finance Director at Belfast Harbour Commissioners and is a Chartered Accountant.

Length of service

The time served by Board members is shown below:

	Length of service as at 31 March 2019 (full years)	Date of appointment	Date of cessation
Dr Leonard J. P. O'Hagan, CBE DL	4	1 April 2015	31 March 2020***
John Rae	7	22 August 2011	31 July 2019
Peter McNaney, CBE	3	1 August 2015	31 July 2019
Jim McCall	3	1 August 2015	31 July 2019
Trisha McAuley, OBE	3	1 August 2015	31 July 2019
Kingsley Donaldson	3	1 August 2015	31 July 2019
Sara Venning	8	21 May 2010	n/a
Ronan Larkin	13	19 September 2005****	n/a
Sean McAleese*****	4	12 January 2015	28 February 2019
Mark Ellesmere	12	26 June 2006****	n/a
Paul Harper	2	1 January 2017	n/a

***The term of appointment for the Chairman was extended by DfI for a period of one year to 31 March 2020.

****Service pre 1 April 2007 is in respect of DRD Water Service.

*****Sean McAleese ceased his employment with NI Water on 28 February 2019. Des Nevin was appointed interim Director of Customer Service Delivery on 1 March 2019. He is not a Director of the Company under the Companies Act 2006.

Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2018/19 are shown below:

	Board meeting			Audit Committee			Risk Committee			Joint Audit Committee and Risk Committee			Nomination and Remuneration Committee		
	Held[8]		Attended	Held[8]		Attended	Held[8]		Attended	Held[8]		Attended	Held[8]		Attended
	Total	Available to attend[9]		Total	Available to attend[9]		Total	Available to attend[9]		Total	Available to attend[9]		Total	Available to attend[9]	
Dr Leonard J. P. O'Hagan, CBE DL	11	11	10	-	-	-	-	-	-	-	-	-	3	3	3
John Rae	11	11	10	5	5	5	4	4	4	1	1	1	3	3	3
Peter McNaney, CBE	11	11	11	5	5	5	-	-	-	1	1	1	3	3	3
Jim McCall	11	11	9	5	5	4	-	-	-	1	1	1	-	-	-
Trisha McAuley, OBE	11	11	10	-	-	-	4	4	4	1	1	0	-	-	-
Kingsley Donaldson	11	11	9	-	-	-	4	4	4	1	1	1	-	-	-
Sara Venning	11	11	11	5	5	5	4	4	4	1	1	1	-	-	-
Ronan Larkin	11	11	11	5	5	5	4	4	4	1	1	1	-	-	-
Sean McAleese[10]	11	10	10	-	-	-	4	4	4	1	1	1	-	-	-
Mark Ellesmere	11	11	11	5	5	5	4	4	4	1	1	1	-	-	-
Paul Harper	11	11	11	-	-	-	4	4	4	1	1	1	-	-	-

[8] This does not include ad hoc Board meetings during the year on specific items.

[9] These columns reflect the fact that a Director resigned from the Board, during the year, therefore was not available to attend all meetings (see 'Length of Service' section on page 72).

[10] Sean McAleese ceased his employment with NI Water on 28 February 2019.

Dr Leonard J. P. O'Hagan CBE DL
Chairman
20 June 2019

Report by Peter McNaney, CBE

Chair of the Audit Committee

The Audit Committee monitored the integrity of financial reporting together with NI Water's formal announcements relating to its financial performance, paying particular attention to significant reporting judgements contained therein. The Audit Committee provided oversight on the effectiveness of financial risk management and its associated controls, reviewed the effectiveness of NI Water's Fraud, Theft, Whistleblowing and Bribery policies and procedures, awareness training, and the effectiveness of investigations.

Significant matters

The significant matters that the Audit Committee considered in relation to the financial statements, and how these issues were addressed, are listed below:

- **Risk relating to financial funding:** the Audit Committee was kept updated during the year of the funding position for 2018/19 including the agreement of a budget and revised outputs for the year with stakeholders. The Committee was also kept appraised of the proposed Operating Plan and Budget for 2019/20 and ongoing liaison with DfI to reach a medium term settlement for future years;
- **Subsidiary companies and consolidation:** the Audit Committee considered the appropriate accounting treatment on the full first year of ownership of the subsidiary companies acquired in 2017/18. This included fair value accounting; the value and treatment of goodwill in the Group accounts and the treatment of the PPP contract in Dalriada Water Limited's accounts;
- **Risk relating to the pension scheme:** the Audit Committee considered the funding position of NI Water Limited's defined benefit pension scheme in the light of changes in market conditions and the completed triennial valuation carried out by the Pension Trustees;
- **Future of Regulatory Accounting Requirements:** the Audit Committee was kept appraised of discussions with the Utility Regulator on regulatory accounting requirements and the transition to a Regulatory Accounting framework based on International Financial Reporting Standards; and
- **The claims level** and treatment of claims from contractors were monitored during the year with additional information sought from management as appropriate.

The Audit Committee met with the Risk Committee to consider the Chief Executive's Year End Assurance Statement, Internal Audit's Annual Assurance Statement and the effectiveness of NI Water's internal control and risk management system.

External Audit

The Audit Committee met with the Company's External Auditors (KPMG) at least four times in the year. The Committee and the External Auditors also held separate meetings without the attendance of executive management. In their assessment of the independence of the External Auditors, the Committee received in writing details of relationships between the External Auditors and NI Water, which may bear on the External Auditors' independence and received confirmation of this independence.

The Audit Committee approved the level of the External Auditors' fees in respect of the audit of the Statutory and Regulatory Accounts of the Group and subsidiaries, considered the adequacy of the External Auditors' proposed audit plan, and reviewed compliance with their letter of engagement. During the year, the Audit Committee undertook a review of the effectiveness of the External Auditors. The review considered the qualifications, expertise, resources and independence of the External Auditors. The Audit Committee is satisfied that the service provided by the External Auditors remains effective.

KPMG was appointed as the external auditors in July 2013 following a competitive tendering exercise. The first set of accounts signed by the current audit partner, John Poole, was for the year ended 31 March 2016. The external audit contract was put out to tender during 2018 and KPMG were reappointed as external auditors for three more years.

Non-audit services such as independent certification work are pre-approved as a matter of policy. Other non-audit services which are considered to have the potential to impair or appear to impair the independence of the audit role, are precluded from being provided by the External Auditors.

Refer to Note D1 to the Statutory Accounts for the fees relating to audit and non-audit services. Non-audit services provided during 2018/19 of £11k (2017/18: £11k).

Internal Audit

The Audit Committee approved the Internal Audit Strategy, which includes reviews on corporate governance. During the year, the Committee monitored completion of the 2018/19 audit plan. The Head of Internal Audit provided a progress report to each Audit Committee meeting, which included an overview of audit review findings, follow up status of recommendations and summary of any advisory activity. The Head of Internal Audit had the opportunity to meet with the Chairman of the Audit Committee without management to discuss NI Water's overall control environment. The Audit Committee assessed the safeguards in place to protect the independence of the Internal Audit Function. In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit provided an annual self-assessment of the function's performance to the Audit Committee.

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Audit Committee's Terms of Reference (approved by the Board).

As Chair of the Audit Committee, I provided a report to the Board after every meeting on the work of the Committee.

Peter McNaney, CBE
20 June 2019

Report by John Rae

Chair of the Risk Committee

The Risk Committee provided oversight on NI Water's risk management framework. The Committee met on a quarterly basis and reviewed the risk management system and processes, the corporate threats and opportunities, risk appetite and benefits to be realised.

They also considered emerging risks, benchmarking of threats and opportunities, training and awareness and the management of actions to reduce NI Water's risk exposure to an acceptable level and to maximise its opportunities.

Significant matters

The significant matters that the Risk Committee considered over the financial year are listed below:

- **Corporate risks:** the Risk Committee considered the proposed corporate threats and opportunities at the start of the financial year and recommended these for Board approval;
- **Corporate risk maps:** over the financial year, the Risk Committee considered significant threats and opportunities to achieving customer promises. This included top ten asset risks for the short and medium term, attendance, wellbeing, health and safety, winter readiness and Brexit;
- **Business continuity management:** the Risk Committee received updates regarding business continuity management, test exercises and IT disaster recovery plans;
- **Cyber security:** the Risk Committee was kept updated regarding ongoing work related to cyber security; and
- **Risk Research and Development:** the Risk Committee considered the ongoing research activities including with Queens University Belfast, Ulster Business School, Ulster University and other European and International research bodies.

The Risk Committee reviewed the corporate threats and opportunities and as Chair of the Risk Committee, I provided a report to the Board on a quarterly basis on key matters regarding risk and assurance. A corporate threat and opportunity management report was also included in the Chief Executive's report to the Board on a monthly basis. The Committee continues to provide support to management and to local universities in relation to research, development and innovation regarding threat and opportunity management.

A joint meeting between the Risk Committee and Audit Committee was held to review the effectiveness of NI Waters' internal control and risk management framework and the Board was satisfied with the annual review provided by both Committees.

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Risk Committee's Terms of Reference. A formal report will be presented to the Board in October 2019.

John Rae
20 June 2019

Refer to the Directors' remuneration report on page 82 in relation to the work of the Nomination and Remuneration Committee.

Governance Statement

Introduction

The Governance section on pages 70 to 87 sets out the role of the Board and the assessment of its effectiveness in discharging its responsibilities under the Companies Act 2006. MPMNI requires a 'Governance Statement' to be included in the Annual report. Given that some of the compliance requirements have already been included in the Governance section, the Governance Statement needs to be read in conjunction with this section. The Governance Statement forms part of the audited financial statements.

Scope of responsibility

As Chief Executive and Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of NI Water's vision and customer promises. I am also responsible for safeguarding the public funds and the Company's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in MPMNI, and as specified in the MSFM.

The governance arrangement complies with the best practice standards of regularity and propriety in the use of public funds and the principles of MPMNI. DfI approves NI Water's Annual Budget and Operating Plan and regularly reviews the Company's performance.

The work of the Company is directed by its Board and Executive Committee. There is a comprehensive reporting and accountability system provided through the Executive Committee, Board and Sub-Committees of the Board who, together with the work of Internal and External Audit, support me in my role as Chief Executive and Accounting Officer.

Governance framework

The system of internal control is designed to manage threat and opportunity to a reasonable level, and to achieve the Company's vision and customer promises. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is supported by a risk management framework to provide an ongoing process to identify and prioritise the risks to the achievement of the customer promises, to evaluate the likelihood and the impact should they be realised, and to manage them efficiently, effectively and economically. The leadership team also considers opportunities for making improvements over the year to achieve better outcomes for our customers and improve wellbeing of our colleagues within a cost effective environment.

The Company's 'Integrated Governance Framework', supported by the Integrated Risk and Resilience Framework provides the appropriate structure in place to facilitate good governance and communication across the business and with key stakeholders.

The system of internal control has been in place in NI Water for the year ended 31 March 2019 and up to the date of approval of the Annual Report and Accounts, and accords with DoF's and HM Treasury's guidance, where appropriate.

Capacity to handle risk

NI Water manages risks in line with our Integrated Risk and Resilience Framework. The Framework clearly defines the roles and responsibilities of the Board, its Committees, the Executive Committee, Directors, Risk Champions and employees. There is a clear chain of accountability from the Accounting Officer to all colleagues. The Framework provides guidance on how to undertake risk assessments and how to manage risk to an acceptable level as determined by the Board.

The risk and control framework

A range of information was used to establish the corporate threats and opportunities at the start of the year. This included a benchmark of threats and opportunities faced by other water and used water entities, the Internal Audit Opinion, the Accounting Officer's Annual Assurance Statement, changes in legislation and Government guidance and emerging risk.

During the year, the Executive Committee met on a quarterly basis to assess and evaluate threats and opportunities and agreed the necessary improvements required to address evolving business needs. The corporate and directorate threat and opportunity registers have clearly defined owners. These registers were reviewed on a continual basis using risk management software, with monthly reports generated for monitoring purposes. Corporate risk maps were presented to the Risk Committee on a cyclical basis throughout the year. The Board received summary information on a monthly basis. Corporate risks can be 'drilled down' to business units and to programme or project levels as appropriate, to evidence the effectiveness of controls and required actions. Directorate risks can also be escalated to senior management's attention when they are graded as 'high' or 'medium'. An established escalation process is also in place to alert the Chief Executive, Board and Stakeholders of significant new issues.

The Risk Committee update the Board on a quarterly basis on threat improvements, benefits from opportunity realised, improvement in resilience, risk escalated and completion of improvement actions. The Board approved the risk appetite and reviewed the action plans in place to manage the risk exposure and realise opportunities.

The Board provides a quarterly risk management report, at a strategic level, to DfI. Risk management is a permanent agenda item in the Shareholder Meetings. Other stakeholders are involved in managing threats and opportunities which impact upon them.

Key risks materialising in year

During the year there were no key risks which materialised into potentially significant issues.

Internal Audit

The Head of Internal Audit provided an 'Annual Opinion' on NI Water's system of governance, risk management and internal control. The opinion for the year ended 31 March 2019 is 'Satisfactory': 'While there is some residual risk identified this should not significantly impact on the achievement of objectives'.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of corporate governance, internal control and risk management. My review is informed by the work of managers within NI Water, who have responsibility for the development and maintenance of the internal control framework. I am also informed by other independent sources of assurance. I have been advised by the Board, Audit Committee and Risk Committee on the implications of the result of my review of the effectiveness of the system of internal control and a plan to address weaknesses and to ensure that continuous improvement of the system of internal control is in place.

A formalised assurance framework to assist me in assessing the extent of compliance with the specified responsibilities, including the effectiveness of the systems of internal control has been developed. The Audit Committee and Risk Committee considered the Internal Audit Opinion and Chief Executive's Annual Assurance Statement and informed the Board on the overall effectiveness of the Company's system of internal control and risk management.

The year end Management Assurance Statements include a list of evidence to support management's response and the associated threats and opportunities. The External Audit opinion for the Statutory, Regulatory and Regularity audits are all 'unqualified' and there is an effective process to manage closure of Management Letter Points raised by the External Auditors.

I am therefore satisfied that the governance, risk management and internal control framework in NI Water is 'satisfactory'.

Chief Executive's Year End Assurance Statement – Exception Report

Whilst there is an adequate system of internal control in place in NI Water, a number of matters included in the 'Exception Report', appended to my Annual Assurance Statement to the DfI Accounting Officer, have been identified for further action. Most of the matters are reflected in the 'Strategic threats and opportunities' section, while others are reported to the Shareholder.

The Board and I will continue to address these matters. We will also work with our Shareholder, where there is joint accountability on certain threats and opportunities, to manage them towards the relevant risk appetite or opportunity realised level.

Sara Venning
Accounting Officer
20 June 2019

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2019.

Principal activities

The principal activities of NI Water (the Group) are the supply of water and the collection and treatment of sewage in Northern Ireland. The parent Company (NI Water Limited) is domiciled and incorporated in Northern Ireland. The Registered Number is NI054463 and the Registered Office is: Westland House, 40 Old Westland Road, Belfast, BT14 6TE. The parent Company is wholly owned by DfI. In November 2017 the parent Company acquired a number of companies which are contracted to provide bulk drinking water supplies under a Public Private Partnership arrangement. Further information on the formation of the Group can be found at page 109.

Going concern

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2019. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the parent Company operates as described below:

- NI Water Limited is subject to economic regulation rather than market competition. As a result, the parent Company provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, which designates NI Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland;
- following the NI Assembly decision to defer the introduction of domestic water charges, NI Water Limited receives funding by means of a subsidy provided by DfI. Due to the level of subsidy, NI Water Limited is also designated as a NDPB and is subject to public sector spending rules i.e. public expenditure; and
- the Board has been unable to accept the Utility Regulator's Final Determination for PC15 due to a shortfall in public expenditure funding.

NI Water Limited engaged positively with the Utility Regulator and the Department to agree changes to 2015/16 and 2016/17 regulatory outputs due to reductions in public expenditure funding.

Following the PC15 Mid-Term Review, the Utility Regulator concluded:

- based on reasonable forward planning scenarios for capital investment, NI Water Limited should have sufficient capital budget to deliver all of its defined PC15 outputs within the PC15 six year period;
- but it is unlikely to allow investment in additional necessary quality improvements, which may need to be deferred to the PC21 period;
- the reduction in expenditure in line with inflation is being passed on to consumers through RPI+K price cap regulation and the PC15 outputs are being delivered; and
- PC15 Final Determination targets remain valid and should be used for planning and performance reporting for the rest of the PC15 period.

As a result, adjusted outputs have not been agreed with the Utility Regulator for 2017/18 and beyond.

NI Water continues to make the case for certainty of funding and a medium term financial settlement to enable price limits and service targets/outputs set in the PC15 Final Determination to prevail.

If funding levels drop below the minimum required to deliver all of the defined PC15 outputs within the PC15 six year period, a similar process will be undertaken to agree changes to PC15 Final Determination targets.

In accordance with the Licence, NI Water Limited is preparing its business plan for the PC21 period for submission to the Utility Regulator in January 2020.

On the basis of the discussions, the Directors have formed a judgement at the time of approving the financial statements that the Group has adequate resources to continue in operational existence for the foreseeable future and as such to continue as a going concern.

Future developments

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

Dividends and reserves

NI Water Limited's dividend policy is to provide a return to the Shareholder DfI based on a percentage of the regulatory capital value less net debt. The return is set in the PC15 Final Determination. Payment of any dividend is subject to NI Water having sufficient distributable profits. Refer to the strategic threats and opportunities (page 54) for factors which could impact on the amount of distributable profits.

It is anticipated that a final dividend of £28.3m for the year ended 31 March 2019 (2018: £26.5m[11]) will be approved by the Shareholder upon the recommendation of the Board in June 2019 and paid in July 2019 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2019.

Directors and Officers

The Directors and Officers who served during the year and up to the date of this report are set out on page 83.

Further details on our Board and Executive Committee can be found at: https://www.niwater.com/our-board/ and https://www.niwater.com/our-executive-committee/

Directors' and Officers' indemnities

Directors and Officers are indemnified by NI Water 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

NI Water's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative agreements, the policy is to make payment not more than 30 days after receipt of a valid invoice. The year to date ratio, expressed in days, between the time invoices from large suppliers fall due and the time invoices were actually paid at 31 March 2019, was 31.7 days (2018: 32.7 days).

NI Water has adopted the public sector supplier payment policy for small and medium sized suppliers of 10 days after receipt of a valid invoice in accordance with the Northern Ireland Executive's policy. As at 31 March 2019, the year to date ratio stood at 11.7 days (2018: 11.4 days).

Political and charitable contributions

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

Research and development

NI Water invested £0.2m on research and development in 2018/19 (2018: £0.3m). Refer to Note G1(g)(i) to the Statutory Accounts for the accounting treatment.

Employees

NI Water uses an increased range of communication channels to keep its employees involved in the Group's affairs to engage them and keep them informed and appraised on performance and other business related matters. NI Water continues to oppose all forms of unlawful and unfair discrimination. It remains the Group's policy to promote equality of opportunity for all our employees during their employment.

Directors' interests in contracts

No Director had a material interest at any time during the year in any contract of significance with NI Water. The key personnel and Directors did not carry out any transactions with related parties of the Group.

[11] This dividend in respect of the year ended 31 March 2018 was paid in August 2018.

Governance

Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2019, 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 NI Water Limited in order that the purposes of a special administration order could be achieved if such an order were made.

Regulation - 'cross directorships'

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

Greenhouse gas emissions

Details on greenhouse gas emissions are included on page 46.

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 Group'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 Group's auditors are aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, KPMG was reappointed as external auditor following a tender process.

By order of the Board

Mark Ellesmere
Company Secretary
20 June 2019

Directors' remuneration report

Nomination and Remuneration Committee

The Nomination and Remuneration Committee determines, on behalf of the Board, and subject to approval by the Shareholder, the NI Water policy on the remuneration of Executive Directors and Executives. Only independent Non-Executive Directors may serve on the Committee. The Committee met twice in the year.

Board appointments and diversity

The Nomination and Remuneration Committee has responsibility for considering the size, structure and composition of the Board, retirements and appointments of additional and replacement Directors, succession planning and making recommendations to the Board and Shareholder so as to maintain an appropriate balance of skills and experience on the Board.

This includes consideration of gender and ethnic diversity. The Shareholder appoints the Chair and all other Non-Executive Board members and participates in and approves the appointment of all executive Directors to the Board.

Remuneration policy

NI Water'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 under the policy should comprise base salary, and a discretionary performance related bonus designed to incentivise Directors and align their interests with those of the Shareholder. The remuneration consists of the following elements:

Base salaries

Under the policy, base salaries for each Executive Director and Executive should be reviewed annually taking into account inflation. Notwithstanding this policy NI Water Limited has been subject to public sector pay policy in 2018/19 as a result of its current governance arrangements.

Annual bonus

There was no bonus scheme in 2018/19 for Executive Directors and Senior Managers.

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.

Group Companies

Apart from NI Water Limited, the directors of the other companies in the Group did not receive any emoluments for their services.

Non-Executive Directors' remuneration

A fee of £859[12] per day is payable to the Chairman and £773[13] per day to the Non-Executive Directors. The higher fee for the Chairman reflects the additional responsibilities of that role. Further details on the attendance by the Non-Executive Directors are provided on page 73.

Directors' employment contracts

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

[12] The fee per day payable for the year 2018/19 is £859 for up to four days per month, increasing to £1,030 per day for a maximum of five additional days.

[13] The fee per day payable for the year 2018/19 is £773 for up to two days per month, remaining at £773 per day for a maximum of four additional days.

Fees paid to members of the Executive Committee

	Year to 31 March 2019					Year to 31 March 2018				
Current Executive Directors:	**Salary and allowances £000**	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Pension benefits[14] £000**	**Total £000**	**Salary and allowances £000**	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Pension benefits £000**	**Total £000**
Sara Venning	**150 – 155**	**-**	**-**	**57**	**210 - 215**	150 - 155	-	-	62	215 - 220
Ronan Larkin	**115 – 120**	**-**	**-**	**36**	**150 - 155**	115 - 120	-	-	46	160 - 165
Paul Harper	**110 - 115**	**-**	**-**	**40**	**150 - 155**	110 - 115	-	-	40	150 - 155
Former Executive Director:										
Sean McAleese	**105 – 110[15]**	**-**	**-**	**29[16]**	**135 - 140**	110 - 115	-	-	25	135 - 140
Current member of the Executive Committee (not Executive Director):										
Mark Ellesmere	**110 - 115**	**-**	**-**	**42**	**155 - 160**	110 - 115	-	-	52	160 - 165
Alistair Jinks	**95 – 100**	**-**	**-**	**30**	**125 - 130**	95 - 100[17]	-	-	38	135 - 140
Rose Kelly	**100 - 105**	**-**	**-**	**37**	**135 - 140**	25 - 30[18]	-	-	9[19]	30 - 35
Des Nevin	**20 - 25[20]**	**-**	**-**	**15[21]**	**35 - 40**	-	-	-	-	-
Current member of the Executive Committee (not Executive Director):										
Bill Gowdy, OBE	**-**	**-**	**-**	**-**	**-**	0 - 5[22]	-	-	-	0 - 5[23]

[14] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases include increases due to inflation and any increase or decrease due to a transfer of pension rights.

[15] £115k - £120k on a full year equivalent basis. Sean McAleese ceased to be Director of Customer Service Delivery on 28 February 2019.

[16] The value of all pension related benefits are assessed over the period from 1 April 2018, to 28 February 2019, the date on which he ceased to be Director of Customer Service Delivery.

[17] Alistair Jinks was appointed to the Executive Committee on 1 April 2017.

[18] £100k - £105k on a full year equivalent basis. Rose Kelly was appointed to the Executive Committee on 1 January 2018.

[19] The value of all pension related benefits are assessed over the period from 1 January 2018, the date on which she was appointed to the Executive Committee, to 31 March 2018.

[20] £100k - £105k on a full year equivalent basis. Des Nevin was appointed to the Executive Committee on 7 January 2019.

[21] The value of all pension related benefits are assessed over the period from 7 January 2019, the date on which she was appointed to the Executive Committee, to 31 March 2019.

[22] £95k - £100k on a full year equivalent basis. Bill Gowdy OBE ceased to be a member of the Executive Committee on 7 April 2017.

[23] The value of all pension related benefits are assessed over the period from 1 April 2017 to 7 April 2017, the date on which he ceased to be a member of the Executive Committee. Restated banding from 120 - 125 to 0 - 5.

Pay multiples

The relationship between the remuneration of the highest paid Director and the median remuneration of NI Water's workforce is shown below. The banded remuneration of the highest paid Director in NI Water was £150k to £155k on a full year equivalent basis (2018: £150k to £155k). This was 4.85 times (2018: 4.91 times) the median remuneration of the workforce, which was £31,765 (2018: £31,127). The marginal change in the pay multiple (ratio) between 2017/18 and 2018/19 was primarily due to the annual uplift to the remuneration of the highest paid director offset to a greater degree by increases to the minimum levels of remuneration.

	Group	
	Year to 31 March 2019 Total	Year to 31 March 2018 Total
Highest paid Director (£'000)	**150 – 155**	150 – 155
Median total remuneration (£)	**31,765**	31,127
Pay multiple (ratio)	**4.85**	4.91
Range of remuneration (£'000)	**10 - 155**	10 - 155

Fees paid to Non-Executive Directors

	Year to 31 March 2019				Year to 31 March 2018			
Current Executive Directors:	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £000	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £000
Dr Leonard J. P. O'Hagan CBE DL- Chairman	**40 - 45**	**-**	**-**	**40 - 45**	40 - 45	-	-	40 - 45
John Rae	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Peter McNaney, CBE	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Jim McCall	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Trisha McAuley, OBE	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Kingsley Donaldson	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20

Pension entitlements

Non-Executive Directors do not participate in NI Water's pension scheme. All Executive Directors are members of the defined benefit pension arrangements. 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.

Further details on pensions are provided in Notes E2 and G3 to the Statutory Accounts.

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 Technical Actuarial Standards issued by the Financial Reporting Council. 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 benefit. Transfer values do not represent sums payable to individual Directors and therefore cannot be added meaningfully to annual remuneration.

Increase in transfer value less Directors' contributions

The real increase in CETV shows the increase over the year in the transfer value of the accrued benefits after deducting the Director's personal contributions to the scheme. Further details on Directors' remuneration are shown in Note E1a to the Statutory Accounts.

Pension benefits for members of the Executive Committee

Current Executive Directors:	Accrued pension at age 60 at 31 March 2019[24] £000	Related lump sum at 31 March 2019[25] £000	Real increase in pension at age 60 £000	Real increase in lump sum at age 60 £000
Sara Venning	25 - 30	30 - 35	2.5 - 5.0	7.5 - 10.0
Ronan Larkin	25 - 30	-	2.5 - 5.0	-
Paul Harper	2.5 - 5.0	10 - 15	0 - 2.5	5.0 - 7.5
Former Executive Director:				
Sean McAleese	55 - 60	175 - 180	2.5 - 5.0	7.5 - 10.0
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	25 - 30	25 - 30	2.5 - 5.0	5.0 - 7.5
Alistair Jinks	20 - 25	-	0 - 2.5	-
Rose Kelly	0 - 2.5	5.0 - 7.5	0 - 2.5	5.0 - 7.5
Des Nevin	40 - 45	120 - 125	0 - 2.5	5.0 - 7.5

[24] Or date of leaving Executive Committee if earlier.

[25] Or date of leaving Executive Committee if earlier.

Pension (CETV) benefits for members of the Executive Committee

Current Executive Directors:	CETV at 31 March 2019[26] £000	CETV at 31 March 2018[27] £000	Increase/(decrease) in transfer value less Director's contribution (net of inflation[28]) £000	Employer contribution (to nearest £100)
Sara Venning	**513**	632	**41**	45,000
Ronan Larkin	**675**	841	**44**	34,700
Paul Harper	**95**	65	**36**	32,500
Former Executive Director:				
Sean McAleese	**1,680**	2,103	**48**	30,300
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	**667**	848	**34**	33,000
Alistair Jinks	**565**	694	**38**	28,700
Rose Kelly	**45**	11	**30**	29,800
Des Nevin	**1,164**	1,502	**26**	6,900
Former members of the Executive Committee:				
Bill Gowdy, OBE	**-**	380	**-**	-

Dr Leonard J. P. O'Hagan CBE DL
Chairman
20 June 2019

[26] Based on accrued benefits at 31 March 2019 (or date of leaving the Executive Committee if earlier) and financial conditions as at 31 March 2019.

[27] Based on accrued benefits at 31 March 2018 (or date of joining the Executive Committee if later) and financial conditions as at 31 March 2018.

[28] CPI inflation of 3.0% (CPI figure for the year to September 2017).

Statement of Directors' responsibilities

The directors are responsible for preparing the directors' report, the strategic 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 Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company 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 Group and Parent 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 Group or Parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent 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 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 Group and the Company and to prevent and detect fraud and other irregularities.

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

Having taken advice from the Audit Committee, the Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Shareholder to assess the Group and Parent Company's position, performance, business model and strategy.

Each of the Directors, whose names are listed on page 83 confirm that, to the best of their knowledge:

- the Group financial statements gives a true and fair view of the assets, liabilities, financial position of the Group as at 31 March 2019 and of its profit for the year then ended;
- the Parent Company statement of financial position gives a true and fair view of the state of affairs of the Parent Company Company's affairs as at 31 March 2019; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company together with a description of the principal risks and uncertainties it faces.

On behalf of the board

Mark Ellesmere
Company Secretary
20 June 2019

River Derg catchment, County Tyrone

Statutory Accounts

Consolidated statement of financial position

	Note	At 31 March 2019 £000	At 31 March 2018 £000 (Restated)*	At 31 March 2017 £000 (Restated)*
Assets				
Property, plant and equipment	A1	**3,091,841**	2,961,787	2,848,193
Investment properties	A3	**6,410**	6,447	6,264
Intangible assets and goodwill	A4	**53,849**	54,309	32,778
Investments	A5	**-**	-	-
Other investments	A6	**15**	28	41
Total non-current assets		**3,152,115**	3,022,571	2,887,276
Inventories	A7	**3,126**	2,673	2,353
Trade and other receivables	C4	**20,973**	23,730	23,076
Unbilled revenue	C5	**12,687**	11,469	9,852
Prepayments		**2,760**	1,452	1,368
Cash and cash equivalents	A8	**18,777**	12,433	3,622
Assets classified as held for sale	A9	**68**	130	790
Total current assets		**58,391**	51,887	41,061
Total assets		**3,210,506**	3,074,458	2,928,337
Equity				
Share capital		**500,000**	500,000	500,000
Statutory distributable reserve		**171,690**	171,690	171,690
Retained earnings		**430,921**	400,621	330,998
Fair value reserve		**(76)**	(63)	(50)
Total equity attributable to owner of the Company		**1,102,535**	1,072,248	1,002,638
Liabilities				
Loans and borrowings	B1	**1,332,767**	1,278,525	1,217,270
Other payables	D2	**11,346**	12,404	1,303
Deferred income	C2	**426,504**	394,211	365,183
Provisions	D3	**2,490**	2,705	2,891
Deferred tax liabilities	F1	**167,095**	154,528	129,969
Employee benefit	E2	**35,632**	22,789	65,984
Total non-current liabilities		**1,975,834**	1,865,162	1,782,600
Loans and borrowings	B1	**9,205**	7,137	4,843
Trade payables	D2	**104,124**	110,828	121,003
Other payables	D2	**14,336**	13,636	11,944
Deferred income	C2	**2,792**	2,703	2,603
Provisions	D3	**1,680**	2,744	2,706
Total current liabilities		**132,137**	137,048	143,099
Total liabilities		**2,107,971**	2,002,210	1,925,699
Total equity and liabilities		**3,210,506**	3,074,458	2,928,337

* See note C6. The Group has wholly applied IFRS15 at 1 April 2018. Under the retrospective method, comparative information has been restated. The Group has presented a third statement of financial position as at the beginning of the preceding period because the adoption of IFRS15 has a material impact on the financial statements.

The financial statements were authorised for issue by the Board of Directors on 20 June 2019 and were signed on its behalf by:

Sara Venning,
Chief Executive,
20 June 2019

The Notes on pages 98 to 161 form part of these financial statements.

Company statement of financial position

	Note	At 31 March 2019 £000	At 31 March 2018 £000 (Restated)*	At 31 March 2017 £000 (Restated)*
Assets				
Property, plant and equipment	A1	**3,091,207**	2,961,310	2,848,193
Investment properties	A3	**6,410**	6,447	6,264
Intangible assets	A4	**30,928**	30,374	32,778
Investments	A5	**-**	-	-
Other investments	A6	**15**	28	41
Total non-current assets		**3,128,560**	2,998,159	2,887,276
Inventories	A7	**2,954**	2,470	2,353
Trade and other receivables	C4	**56,014**	54,150	23,076
Unbilled revenue	C5	**12,687**	11,469	9,852
Prepayments		**2,779**	1,430	1,368
Cash and cash equivalents	A8	**7,731**	3,897	3,622
Assets classified as held for sale	A9	**68**	130	790
Total current assets		**82,233**	73,546	41,061
Total assets		**3,210,793**	3,071,705	2,928,337
Equity				
Share capital	B3	**500,000**	500,000	500,000
Statutory distributable reserve		**171,690**	171,690	171,690
Retained earnings		**439,767**	409,564	330,998
Fair value reserve		**(76)**	(63)	(50)
Total equity attributable to owner of the Company		**1,111,381**	1,081,191	1,002,638
Liabilities				
Loans and borrowings	B1	**1,337,867**	1,280,564	1,217,270
Other payables	D2	**1,500**	2,008	1,303
Deferred income	C2	**426,504**	394,211	365,183
Provisions	D3	**2,490**	2,705	2,891
Deferred tax liabilities	F1	**163,983**	151,893	129,969
Employee benefit	E2	**35,632**	22,789	65,984
Total non-current liabilities		**1,967,976**	1,854,170	1,782,600
Loans and borrowings	B1	**6,697**	5,706	4,843
Trade payables	D2	**105,991**	111,615	121,003
Other payables	D2	**14,276**	13,576	11,944
Deferred income	C2	**2,792**	2,703	2,603
Provisions	D3	**1,680**	2,744	2,706
Total current liabilities		**131,436**	136,344	143,099
Total liabilities		**2,099,412**	1,990,514	1,925,699
Total equity and liabilities		**3,210,793**	3,071,705	2,928,337

* See note C6. The Company has wholly applied IFRS15 at 1 April 2018. Under the retrospective method, comparative information has been restated. The Company has presented a third statement of financial position as at the beginning of the preceding period because the adoption of IFRS15 has a material impact on the financial statements.

The financial statements were authorised for issue by the Board of Directors on 20 June 2019 and were signed on its behalf by:

Sara Venning,
Chief Executive,
20 June 2019

The Notes on pages 98 to 161 form part of these financial statements.

Consolidated statement of comprehensive income

	Note	Year to 31 March 2019 £000	Year to 31 March 2018 £000 (Restated)*
Revenue	C1	**416,442**	**403,556**
Other income	C3	**911**	1,394
Operating expenses	D1	**(275,460)**	(276,218)
Research and development expenses		**(159)**	(312)
Results from operating activities		**141,734**	128,420
Finance income	B2	**1,260**	1,121
Finance costs	B2	**(62,324)**	(63,279)
Net finance costs		**(61,064)**	(62,158)
Profit before income tax		**80,670**	66,262
Income tax expense	F1	**(14,496)**	(13,295)
Profit for the year		**66,174**	52,967
Other comprehensive income			
Items that will never be reclassified to profit or loss: Defined benefit plan actuarial (losses)/gains	F1	**(9,413)**	41,180
Equity investment at Fair Value Through Other Comprehensive Income (FVOCI) - net change in fair value	F1	**(13)**	(13)
Other comprehensive income for the period, net of income tax		**(9,426)**	**41,167**
Total comprehensive income for the period		**56,748**	**94,134**
Profit attributable to:			
Owner of the Company		**66,174**	52,967
Total comprehensive income attributable to:			
Owner of the Company		**56,748**	94,134

All profits relate to continuing operations.

* See note C6. The Group has wholly applied IFRS15 at 1 April 2018. Under the retrospective method, comparative information has been restated. The Group has presented a third statement of financial position as at the beginning of the preceding period because the adoption of IFRS15 has a material impact on the financial statements.

The Notes on pages 98 to 161 form part of these financial statements.

Consolidated statement of changes in equity

	Attributable to the owner of the Group					
	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000 (Restated)*	Fair value reserve £000	Total equity £000
Balance at 1 April 2018	B3	500,000	171,690	400,621	(63)	1,072,248
Total comprehensive income for the period						
Profit for the year		-	-	66,174	-	66,174
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial losses	E2	-	-	(11,341)	-	(11,341)
Deferred tax arising on losses in defined benefit plan	F1	-	-	1,928	-	1,928
Items that are or may be reclassified to profit or loss:						
Equity investment at FVOCI - net change in fair value		-	-	-	(13)	(13)
Total other comprehensive income		-	-	(9,413)	(13)	(9,426)
Total comprehensive income for the period		-	-	56,761	(13)	56,748
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to owner of the Company	B3	-	-	(26,461)	-	(26,461)
Balance at 31 March 2019		500,000	171,690	430,921	(76)	1,102,535
Dividends per share (GBP)						0.05

* See note C6. The Group has wholly applied IFRS15 at 1 April 2018. Under the retrospective method, comparative information has been restated. The Group has presented a third statement of financial position as at the beginning of the preceding period because the adoption of IFRS15 has a material impact on the financial statements.

The Notes on pages 98 to 161 form part of these financial statements.

Statutory Accounts

Consolidated statement of changes in equity continued

	Attributable to the owner of the Group					
	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000 (Restated)*	Fair value reserve £000	Total equity £000
Balance at 1 April 2017, as previously reported	B3	500,000	171,690	629,198	(50)	1,300,838
Adjustment on initial application of IFRS15, net of tax		-	-	(298,200)	-	(298,200)
Restated balance at 1 April 2017		500,000	171,690	330,998	(50)	1,002,638
Total comprehensive income for the period						
Profit for the year		-	-	52,967	-	52,967
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial gains	E2	-	-	49,614	-	49,614
Deferred tax arising on gains in defined benefit plan	F1	-	-	(8,434)	-	(8,434)
Items that are or may be reclassified to profit or loss:						
Equity investment at FVOCI - net change in fair value		-	-	-	(13)	(13)
Total other comprehensive income		-	-	41,180	(13)	41,167
Total comprehensive income for the period		-	-	94,147	(13)	94,134
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to owner of Company	B3	-	-	(24,524)	-	(24,524)
Balance at 31 March 2018		500,000	171,690	400,621	(63)	1,072,248
Dividends per share (GBP)						0.05

* See note C6. The Group has wholly applied IFRS15 at 1 April 2018. Under the retrospective method, comparative information has been restated. The Group has presented a third statement of financial position as at the beginning of the preceding period because the adoption of IFRS15 has a material impact on the financial statements.

The Notes on pages 98 to 161 form part of these financial statements.

Company statement of changes in equity

	Attributable to the owner of the Company					
	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000 (Restated)*	Fair value reserve £000	Total equity £000
Balance at 1 April 2018	B3	500,000	171,690	409,564	(63)	1,081,191
Total comprehensive income for the period						
Profit for the year		-	-	66,077	-	66,077
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial losses	E2	-	-	(11,341)	-	(11,341)
Deferred tax arising on losses in defined benefit plan	F1	-	-	1,928	-	1,928
Items that are or may be reclassified to profit or loss:						
Equity investment at FVOCI - net change in fair value		-	-	-	(13)	(13)
Total other comprehensive income		-	-	(9,413)	(13)	(9,426)
Total comprehensive income for the period		-	-	56,664	(13)	56,651
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to owner of the Company	B3	-	-	(26,461)	-	(26,461)
Balance at 31 March 2019		500,000	171,690	439,767	(76)	1,111,381
Dividends per share (GBP)						0.05

* See note C6. The Group has wholly applied IFRS15 at 1 April 2018. Under the retrospective method, comparative information has been restated. The Group has presented a third statement of financial position as at the beginning of the preceding period because the adoption of IFRS15 has a material impact on the financial statements.

The Notes on pages 98 to 161 form part of these financial statements.

Company statement of changes in equity continued

	Attributable to the owner of the Company					
	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000 (Restated)*	Fair value reserve £000	Total equity £000
Balance at 1 April 2017, as previously reported	B3	500,000	171,690	629,198	(50)	1,300,838
Adjustment on initial application of IFRS15, net of tax		-	-	(298,200)	-	(298,200)
Restated balance at 1 April 2017		500,000	171,690	330,998	(50)	1,002,638
Total comprehensive income for the period						
Profit for the year		-	-	61,910	-	61,910
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial gains	E2	-	-	49,614	-	49,614
Deferred tax arising on gains in defined benefit plan	F1	-	-	(8,434)	-	(8,434)
Items that are or may be reclassified to profit or loss:						
Equity investment at FVOCI - net change in fair value		-	-	-	(13)	(13)
Total other comprehensive income		-	-	41,180	(13)	41,167
Total comprehensive income for the period		-	-	103,090	(13)	103,077
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to owner of Company	B3	-	-	(24,524)	-	(24,524)
Balance at 31 March 2018		500,000	171,690	409,564	(63)	1,081,191
Dividends per share (GBP)						0.05

* See note C6. The Group has wholly applied IFRS15 at 1 April 2018. Under the retrospective method, comparative information has been restated. The Group has presented a third statement of financial position as at the beginning of the preceding period because the adoption of IFRS15 has a material impact on the financial statements.

The Notes on pages 98 to 161 form part of these financial statements.

Consolidated statement of cash flows

	Note	Year to 31 March 2019 £000	Year to 31 March 2018 £000 (Restated)*
Cash flows from operating activities			
Profit before tax		**80,670**	66,262
Adjustments for:			
Depreciation	A1, A3	**75,621**	73,507
Amortisation of intangible assets	A4	**6,576**	7,030
Amortisation of deferred credit on adopted assets		**(3,145)**	(2,929)
Gain on sale of property, plant and equipment	C3	**(551)**	(1,035)
Interest expense (net)	B2	**61,064**	62,158
Amortisation of goodwill	A4	**1,014**	-
Amortisation of FV senior debt loan and associated deferred tax		**(458)**	-
Non-cash differences taken to profit or loss		**533**	(312)
		221,324	204,681
Changes in:			
- inventories		**453**	(167)
- trade and other receivables		**1,131**	(69)
- unbilled revenue		**(2,563)**	(1,704)
- trade and other payables		**3,219**	(3,361)
- provisions		**(723)**	(149)
- excess of pension charge over cash pension contributions		**(129)**	6,152
Cash generated from operating activities		**222,712**	205,383
Cash flows from investing activities			
Interest received		**164**	61
Proceeds from sale of property, plant and equipment		**646**	1,536
Acquisition of property, plant and equipment, and intangible assets		**(187,889)**	(160,354)
Acquisition of subsidiaries, net of cash acquired	A5	**-**	(9,662)
Grants received		**1,503**	73
Net cash used in investing activities		**(185,576)**	(168,346)
Cash flows from financing activities			
Proceeds from borrowings		**64,000**	69,000
Payment of finance lease liabilities		**(3,056)**	(4,050)
Payment of bank loans		**(4,081)**	(1,612)
Interest paid		**(61,189)**	(66,803)
Dividends paid	B3	**(26,461)**	(24,524)
Tax paid		**(5)**	(237)
Net cash from financing activities		**(30,792)**	(28,226)
Net increase in cash and cash equivalents		**6,344**	8,811
Cash and cash equivalents at 1 April	A8	**12,433**	3,622
Cash and cash equivalents at 31 March	A8	**18,777**	12,433

* See note C6. The Group has wholly applied IFRS15 at 1 April 2018. Under the retrospective method, comparative information has been restated. The Group has presented a third statement of financial position as at the beginning of the preceding period because the adoption of IFRS15 has a material impact on the financial statements.

The Notes on pages 98 to 161 form part of these financial statements.

Company statement of cash flows

	Note	Year to 31 March 2019 £000	Year to 31 March 2018 £000 (Restated)*
Cash flows from operating activities			
Profit before tax		**80,095**	75,221
Adjustments for:			
Depreciation	A1, A3	**75,603**	73,460
Amortisation of intangible assets	A4	**6,576**	7,030
Notional income relating to adopted assets	C1	**-**	-
Gain on sale of property, plant and equipment	C3	**(551)**	(1,035)
Interest expense (net)		**63,684**	63,818
Amortisation of deferred credit for adopted assets	C1	**(3,145)**	(2,929)
		222,262	215,565
Changes in:			
- inventories		**(484)**	(121)
- trade and other receivables		**828**	(775)
- unbilled revenue		**(2,571)**	(1,678)
- trade and other payables		**4,846**	(3,598)
- provisions		**(1,279)**	(148)
- excess of pension charge over cash pension contributions		**(129)**	6,152
Cash generated from operating activities		**223,473**	215,397
Cash flows from investing activities			
Interest received		**429**	103
Proceeds from sale of property, plant and equipment		**446**	1,536
Insurance Proceeds		**200**	-
Acquisition of property, plant and equipment, and intangible assets	A5	**(187,918)**	(160,235)
Acquisition of subsidiaries		**-**	(29,126)
Loan to subsidiaries		**(2,998)**	-
Grants received		**1,384**	73
Net cash used in investing activities		**(188,457)**	(187,649)
Cash flows from financing activities			
Proceeds from borrowings		**64,000**	69,000
Payment of finance lease liabilities		**(5,706)**	(4,843)
Interest paid		**(63,011)**	(66,869)
Dividends paid	B3	**(26,461)**	(24,524)
Tax paid		**(4)**	(237)
Net cash from financing activities		**(31,182)**	(27,473)
Net increase in cash and cash equivalents		**3,834**	275
Cash and cash equivalents at 1 April	A8	**3,897**	3,622
Cash and cash equivalents at 31 March	**A8**	**7,731**	3,897

* See note C6. The Group has wholly applied IFRS15 at 1 April 2018. Under the retrospective method, comparative information has been restated. The Group has presented a third statement of financial position as at the beginning of the preceding period because the adoption of IFRS15 has a material impact on the financial statements.

The Notes on pages 98 to 161 form part of these financial statements.

Notes to the Statutory accounts

1. Key accounting policies

a) Reporting entity

Northern Ireland Water Limited (the Company) is a Company domiciled in Northern Ireland. The address of the Company's registered office is Westland House, 40 Old Westland Road, Belfast, BT14 6TE. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in the supply of water and the collection and treatment of sewerage in Northern Ireland.

The Company is wholly owned by the Department for Infrastructure (DfI).

b) Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and with the Companies Act 2006. The accounting policies, as set out below, have, unless otherwise stated, been consistently applied to all the years presented.

c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the defined benefit liability which is recognised as the fair value of the plan assets less the present value of the defined benefit obligation, the revaluation of certain financial liabilities (under IFRS) to fair value, including derivative instruments, and the investments which are held at fair value through Other Comprehensive Income. The defined benefit pension liability and derivative financial instrument represents a material item in the statement of financial position (SOFP).

The consolidated financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2019. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the parent Company operates as described below.

NI Water Limited is subject to economic regulation rather than market competition. As a result, NI Water Limited provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006 which designates Northern Ireland Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland.

Following the NI Assembly decision to defer the introduction of domestic water charges, NI Water Limited receives funding by means of a subsidy provided by DfI. Due to the level of subsidy, NI Water Limited is also designated as a NDPB and is subject to public sector spending rules.

The Board has been unable to accept the Utility Regulator's Final Determination for the Price Control from 16 April 2015 to 31 March 2021 (PC15) due to a shortfall in public expenditure funding.

NI Water Limited engaged positively with the Utility Regulator and the Department to agree changes to 2015/16 and 2016/17 regulatory outputs due to the reduction in Public Expenditure funding.

Following the PC15 Mid-Term Review, the Utility Regulator concluded:

- based on reasonable forward planning scenarios for capital investment, NI Water Limited should have sufficient capital budget to deliver all of its defined PC15 outputs within the PC15 six year period;
- but it is unlikely to allow investment in additional necessary quality improvements, which may need to be deferred to the PC21 period;
- the reduction in expenditure in line with inflation is being passed on to consumers through RPI+K price cap regulation and the PC15 outputs are being delivered; and

1. Key accounting policies continued

- PC15 Final Determination targets remain valid and should be used for planning and performance reporting for the rest of the PC15 period.

As a result, adjusted outputs have not been agreed with the Utility Regulator for 2017/18 and beyond.

NI Water continues to make the case for certainty of funding and a medium term financial settlement to enable price limits and service targets/ outputs set in the PC15 Final Determination to prevail.

If funding levels drop below the minimum required to deliver all of the defined PC15 outputs within the PC15 six year period, a similar process will be undertaken to agree changes to PC15 Final Determination targets.

In accordance with the Licence, NI Water Limited is preparing its business plan for the PC21 period for submission to the Utility Regulator in January 2020.

The Company has the following short-term and long-term cash and bank facilities:

- a new capital loan arrangement to 31 March 2021 has been established to fund the capital expenditure for the business. This also includes the facility to drawdown loan notes to cover unforeseen events/ emergency situations;
- a £20m working capital facility to 31 March 2021 which provides access to cash facilities for short-term needs and for unforeseen events/emergency situations;
- the Subsidy Agreement with DfI permits the early drawdown of subsidy in year if the cash is required; and
- access to transactional banking services under the new Northern Ireland Civil Service arrangements was established from 1 April 2016.

Further information is included in Note G2 (liquidity risk).

d) Functional and presentation currency

The consolidated financial statements are presented in pound sterling (GBP), which is the Company's functional currency. All financial information presented in GBP has been rounded to the nearest thousand.

e) Changes in accounting policies

The Group has initially applied IFRS 15 (see (i)) from 1 April 2018. A number of other new standards are also effective from 1 April 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has been restated to reflect the requirements of the new standards.

The effect of initially applying these standards is mainly attributed to the following:

- The deferral of income related to the adoption of infrastructure assets over the period in which economic benefits will be earned.

(i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations (including IFRIC18 – Transfer of assets from customers). Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the retrospective effect method, with the effect of initially applying this standard recognised at the date of transition (i.e. 1 April 2017). Accordingly, the information presented for 2018 has been restated. Additionally, the disclosure requirements in IFRS 15 have generally been applied to comparative information.

1. Key accounting policies continued

The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings and NCI at 1 April 2017.

	Note	Impact of adopting IFRS 15 at 1 April 2017 £000
Deferral of income in respect of the adoption of assets	(a)	359,277
Related tax		(61,077)
Impact at 1 April 2017		**(298,200)**

The following tables summarise the impacts of adopting IFRS 15 on the Group's statement of financial position as at 31 March 2019 and its statement of profit or loss and OCI for the year then ended for each of the line items affected. There was no material impact on the Group's statement of cash flows for the year ended 31 March 2019.

Impact on the consolidated statement of financial position at 31 March 2019

	Group			
	Note	As reported £000	Adjustments £000	Amounts without adoption of IFRS 15 £000
Equity				
Retained earnings		430,921	347,474	778,395
Total equity		1,102,535	347,474	1,450,009
Liabilities				
Deferred income	(a)	426,504	(418,643)	7,861
Deferred tax liabilities		167,095	71,169	238,264
Total liabilities		2,107,971	(347,474)	1,760,497

Impact on the consolidated statement of profit or loss and OCI at 31 March 2019

	Group			
	Note	As reported £000	Adjustments £000	Amounts without adoption of IFRS 15 £000
Revenue	(a)	416,442	31,150	447,592
Income tax expense		(14,496)	(5,295)	(19,791)
Profit for the period		66,174	25,855	92,029
Total comprehensive income for the period		56,748	25,855	82,603

(a) Adoption of assets: Under IFRIC 18, revenue for these contracts was recognised immediately upon adoption. Under IFRS15 it has been determined that the contract with the customer is satisfied through the provision of access to water and sewerage services over the life of the asset and accordingly the revenue has been deferred and is recognised as income over the life of the asset adopted.

IFRS 15 did not have a significant impact on the Group's accounting policies with respect to other revenue streams (see Notes C1 and C6).

For additional information about the Group's accounting policies relating to revenue recognition, see Note G1 (n).

1. Key accounting policies continued

The following tables summarise the impacts of adopting IFRS 15 on the Company's statement of financial position as at 31 March 2019 and its statement of profit or loss and OCI for the year then ended for each of the line items affected. There was no material impact on the Company's statement of cash flows for the year ended 31 March 2019.

Impact on the company statement of financial position at 31 March 2019

	Company			
	Note	As reported £000	Adjustments £000	Amounts without adoption of IFRS 15 £000
Equity				
Retained earnings		439,767	347,474	787,241
Total equity		1,111,381	347,474	1,458,855
Liabilities				
Deferred income	(a)	426,504	(418,643)	7,861
Deferred tax liabilities		163,983	71,169	235,152
Total liabilities		2,099,412	(347,474)	1,751,938

Impact on the company statement of profit or loss and OCI at March 2019

	Company			
	Note	As reported £000	Adjustments £000	Amounts without adoption of IFRS 15 £000
Revenue	(a)	416,673	31,150	447,823
Income tax expense		(14,018)	(5,295)	(19,313)
Profit for the period		66,077	25,855	91,932
Total comprehensive income for the period		56,651	25,855	82,506

(a) Adoption of assets: Under IFRIC 18, revenue for these contracts was recognised immediately upon adoption. Under IFRS15 it has been determined that the contract with the customer is satisfied through the provision of access to water and sewerage services over the life of the asset and accordingly the revenue has been deferred and is recognised as income over the life of the asset adopted.

IFRS 15 did not have a significant impact on the Company's accounting policies with respect to other revenue streams (see Notes C1 and C6).

For additional information about the Company's accounting policies relating to revenue recognition, see Note G1 (n).

1. Key accounting policies continued

f) Critical accounting estimates and judgements

The preparation of the consolidated financial statements, in conformity with IFRSs, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- Note C4 – trade and other receivables;
- Note E2 – measurement of defined benefit pension obligations;
- Notes D3 and D4 – provisions and contingencies;
- Note G1(r) and Note B4 – measurement of fair values; and
- Note F1 – deferred taxation.

Significant accounting policies are included at Note G1.

Key themes for NI Water

A. The assets we use

NI Water uses a significant number of assets in its operations. We are continually investing in our assets both to maintain and to increase our capacity for service. For further information on our capital programme see pages 68 to 69.

This section sets out those assets the Group and Company intends to continue to use, those which are in the course of being disposed of and any disposals which have been completed in the year. Certain assets which are shown on the balance sheet are being paid for through a PPP contract. Under such arrangements NI Water obtains substantially all the risks and rewards of ownership. Information is provided on Group and Company acquisitions during the year. This section also deals with the financing costs and obligations associated with such assets.

For further information on the relevant accounting policies applied in this section please see section G1.

A1. Property, plant and equipment

	Company						Group	
	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**	Vehicle plant and equipment £000	**Total £000**
Cost or deemed cost								
Balance at 1 April 2017	78,205	1,815,865	1,255,481	15,986	156,460	**3,321,997**	-	**3,321,997**
Assets acquired**	-	-	-	-	-	**-**	9	**9**
Additions	-	4,101	-	-	151,378	**155,479**	487	**155,966**
Customer contributions	2	30,025	1,118	-	-	**31,145**	-	**31,145**
Disposals	(9)	(1,093)	(112)	(789)	-	**(2,003)**	-	**(2,003)**
Transfers	1,831	31,016	67,663	361	(100,871)	**-**	-	**-**
Transfers to investment properties	(6)	-	-	-	-	**(6)**	-	**(6)**
Balance at 31 March 2018	**80,023**	**1,879,914**	**1,324,150**	**15,558**	**206,967**	**3,506,612**	**496**	**3,507,108**
Balance at 1 April 2018	80,023	1,879,914	1,324,150	15,558	206,967	**3,506,612**	496	**3,507,108**
Additions	-	4,212	-	-	166,989	**171,201**	175	**171,376**
Customer contributions	2	32,886	1,407	-	-	**34,295**	-	**34,295**
Disposals	(34)	(1,300)	(42)	(161)	-	**(1,537)**	-	**(1,537)**
Transfers	3,167	62,483	101,272	1,431	(168,353)	**-**	-	**-**
Reclassification of asset categories	169	-	(169)	-	-	**-**	-	**-**
Transfers to investment properties	-	-	-	-	-	**-**	-	**-**
Balance at 31 March 2019	**83,327**	**1,978,195**	**1,426,618**	**16,828**	**205,603**	**3,710,571**	**671**	**3,711,242**

* Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.
** Assets acquired relates to assets acquired as part of the acquisition of subsidiaries at 20 November 2017.

A1. Property, plant and equipment continued

	Company						Group	
	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**	Vehicle plant and equipment £000	**Total £000**
Depreciation and impairment losses								
Balance at 1 April 2017	(9,100)	(124,076)	(329,496)	(11,132)	-	**(473,804)**	-	**(473,804)**
Assets acquired**	-	-	-	-	-	**-**	(1)	**(1)**
Depreciation for the year	(1,137)	(17,554)	(53,168)	(1,594)	-	**(73,453)**	(18)	**(73,471)**
Disposals	7	1,093	73	782	-	**1,955**	-	**1,955**
Balance at 31 March 2018	**(10,230)**	**(140,537)**	**(382,591)**	**(11,944)**	**-**	**(545,302)**	**(19)**	**(545,321)**
Balance at 1 April 2018	(10,230)	(140,537)	(382,591)	(11,944)	-	**(545,302)**	(19)	**(545,321)**
Depreciation for the year	(1,233)	(18,246)	(54,824)	(1,296)	-	**(75,599)**	(18)	**(75,617)**
Disposals	34	1,300	42	161		**1,537**	-	**1,537**
Balance at 31 March 2019	**(11,429)**	**(157,483)**	**(437,373)**	**(13,079)**	**-**	**(619,364)**	**(37)**	**(619,401)**
Carrying amounts								
At 31 March 2018	69,793	1,739,377	941,559	3,614	206,967	2,961,310	477	2,961,787
At 31 March 2019	**71,898**	**1,820,712**	**989,245**	**3,749**	**205,603**	**3,091,207**	**634**	**3,091,841**

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

** Assets acquired relates to assets acquired as part of the acquisition of subsidiaries at 20 November 2017.

All surplus land and buildings have been transferred to investment properties and non-current assets held for sale (see Note A3).

Borrowing costs capitalisation

Included in the total net book value of property, plant and machinery is £5,014k (2018: £5,361k) of borrowing costs capitalised during the period using a capitalisation rate of 3.90% (2018: 4.05%) relating to the parent Company.

Statutory Accounts

A1. Property, plant and equipment continued

Leased assets (Group and Company)

	At 31 March 2019 £000	At 31 March 2018 £000
The net book value of land and buildings comprises:		
Freehold	**70,845**	68,737
Leasehold - long and short term	**1,053**	1,056
Total	**71,898**	69,793

	At 31 March 2019 £000	At 31 March 2018 £000
Land within this total is not depreciated and is shown as follows:		
Freehold	**17,544**	17,127

PPP assets

The cost and net book value of PPP assets included in property, plant and equipment are disclosed in Note A2. Commitments under operating leases are shown in Note D5.

Capital commitments

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

	Group and Company	
	At 31 March 2019 £000	At 31 March 2018 £000
Contracted	**105,771**	79,461

In addition to the above, at the end of the financial year the Group and Company had entered into commitments amounting to £460m (2018: £506m). These commitments relate to planned future capital spend. The contracted amount of £106m is in relation to actual spend contracted with suppliers to date.

A2. Service concession agreements

The transfer of ownership of the assets and liabilities of Water Service from an agency of a Government Department to NI Water on 1 April 2007 included the transfer of a number of service concession arrangements with private sector Companies (PPP Companies) in the form of Private Finance Initiative contracts for the supply of water and used water services.

The capital cost of each contract is included within 'property, plant and equipment' (see Note A1) and as PPP creditor in 'loans and borrowings' (see Note B1) in the SOFP. No changes in the arrangements occurred during the year. A description of the arrangements, their significant terms, and the nature and extent of rights and obligations are outlined below.

Kinnegar

A contract with Coastal Clear Water Limited was signed on 30 April 1999 for the provision of sewage treatment, which covered the upgrading of the Kinnegar Waste Treatment Works with a capital cost in the region of £11m. The contract is for 25 years with an end date of 30 April 2024. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2019 is £12.0m and £5.23m respectively (2018: £12.0m and £5.56m). The amount included in PPP Creditors at 31 March 2019 is £2.53m (2018: £3.02m).

Omega

A contract with Glen Water Limited was signed on 6 March 2007 for the provision of sewage treatment / sludge disposal at six sites with a capital cost in the region of £132m. The contract is for 25 years with an end date of 5 March 2032. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2019 is £146.95m and £104.50m respectively (2018: £144.99m and £106.78m). The amount included in PPP Creditors at 31 March 2019 is £110.12m (2018: £112.69m).

A2. Service concession agreements continued

Alpha (Company only)

A contract with Dalriada Water Limited was signed on 30 May 2006 for the provision of bulk drinking water supplies. This has a capital cost in the region of £111m. The service provision commenced roll-out from November 2008. The contract is for 25 years with an end date of 29 May 2031. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2019 is £123.45m and £86.53m respectively (2018: £120.36m and £87.24m). The amount included in PPP Creditors at 31 March 2019 is £85.35m (2018: £88.00m). With the acquisition by the Group of Dalriada Water Limited during 2017/18 (see Note A5) the PPP creditor at group level is eliminated on consolidation.

Significant terms

The key terms relate to the basis upon which the Group and Company pays for the services provided by the PPP Companies. The levels of such payments are subject to performance, volume and quality targets being met, which lead to fluctuations in the amount payable. The Group and Company also has the power to levy payment deductions where the level of service falls below pre-determined standards, primarily linked to the quality of the treated used water and drinking water. The contracts are structured such that either party may seek to amend the basis upon which the service is provided, primarily where driven by a change in law but also by agreement to a change in the level of service or a refinancing change. This is subject to a formal variation procedure and is ultimately dependent upon the parties reaching agreement on the contractual changes required to give effect to the specific variation.

Nature and extent of rights and obligations

The Group and Company's primary obligations are to deliver fresh water and used water to the PPP Companies and thereafter the Group and Company pays for the treatment services provided, making the appropriate deduction where the PPP Companies fail to meet the appropriate performance standards. The PPP Companies provided the initial construction services through a sub-contract and also entered into sub-contracts for the operation and maintenance of these assets once satisfactorily commissioned. All such projects are in their operational phase. Sites are licensed or leased to the PPP Companies through the contract.

Termination in full or in part (in some circumstances) during the contractual period can arise for a number of reasons including default (by either the PPP Company or the Group and Company), force majeure, uninsurable events or voluntary termination by the Group and Company. Each contract contains a formula from which termination compensation payable by the Group and Company is derived. Other than each party's unilateral right to propose an amendment to a contract, the most likely circumstance which would give rise to the re-negotiation of a contract is as a result of a change in law which requires the manner in which the treatment and/or disposal service is delivered to be changed, in order to ensure it meets the requirements of such legislative changes. The contracts also stipulate a range of 'hand-back' conditions linked to the remaining life of certain assets.

A3. Investment properties

	Group	Company
	Total £000	Total £000
Cost or deemed cost		
Balance at 1 April 2017	18,759	18,759
Reclassification from property, plant and equipment	6	6
Disposals	-	-
Transfers to non-current assets held for sale	(1)	(1)
Transfers from non-current assets held for sale	307	307
Balance at 31 March 2018	19,071	19,071
Balance at 1 April 2018	19,071	19,071
Disposals	(66)	(66)
Transfers to non-current assets held for sale	-	-
Transfers from non-current assets held for sale	12	12
Balance at 31 March 2019	19,017	19,017
Accumulated depreciation and impairment losses		
Balance at 1 April 2017	(12,495)	(12,495)
Disposals	-	-
Impairment loss	-	-
Reclassification to non-current assets held for sale	5	5
Reclassification from non-current assets held for sale	(98)	(98)
Depreciation for the year	(36)	(36)
Balance at 31 March 2018	(12,624)	(12,624)
Balance at 1 April 2018	(12,624)	(12,624)
Disposals	21	21
Impairment loss	-	-
Reclassification to non-current assets held for sale	-	-
Reclassification from non-current assets held for sale	-	-
Depreciation for the year	(4)	(4)
Balance at 31 March 2019	(12,607)	(12,607)
Carrying amounts		
At 31 March 2018	6,447	6,447
At 31 March 2019	6,410	6,410

Impairment loss

During the year ended 31 March 2019, the Group and Company did not recognised any impairment loss for investment properties (2018: £Nil)

A4. Intangible assets and goodwill

	Company			Group	
	Computer programs and software £000	Assets in the course of construction £000	**Total £000**	Goodwill £000	**Total £000**
Cost					
Balance at 1 April 2017	76,989	1,826	**78,815**	-	**78,815**
Goodwill arising on acquisitions	-	-	**-**	23,935	**23,935**
Additions	-	4,626	**4,626**	-	**4,626**
Transfers	2,894	(2,894)	**-**	-	**-**
Balance at 31 March 2018	**79,883**	**3,558**	**83,441**	**23,935**	**107,376**
Balance at 1 April 2018	79,883	3,558	**83,441**	23,935	**107,376**
Additions	-	7,130	**7,130**	-	**7,130**
Transfers	3,896	(3,896)	**-**	-	**-**
Disposals	(40)	-	**(40)**	-	**(40)**
Balance at 31 March 2019	**83,739**	**6,792**	**90,531**	**23,935**	**114,466**
Amortisation and impairment losses					
Balance at 1 April 2017	(46,037)	-	**(46,037)**	-	**(46,037)**
Amortisation for the year	(7,030)	-	**(7,030)**	-	**(7,030)**
Balance at 31 March 2018	**(53,067)**	**-**	**(53,067)**	**-**	**(53,067)**
Balance at 1 April 2018	(53,067)	-	**(53,067)**	-	**(53,067)**
Amortisation for the year	(6,576)	-	**(6,576)**	(1,014)	**(7,590)**
Disposals	40	-	**40**	-	**40**
Balance at 31 March 2019	**(59,603)**	**-**	**(59,603)**	**(1,014)**	**(60,617)**
Carrying amounts					
At 31 March 2018	26,816	3,558	**30,374**	23,935	**54,309**
At 31 March 2019	**24,136**	**6,792**	**30,928**	**22,921**	**53,849**

a) Impairment testing for goodwill

The recoverable amount of the goodwill was based on fair value less costs of disposal, estimated using discounted cash flows. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

The cash flow projections included specific estimates for the life of the finite contract and the discount rate was a post-tax measure estimated based on the historical industry average weighted-average equity cost of capital, at a market interest rate of 7.5%.

The key assumption used in the estimations of the recoverable amount reflects management's assessment of the performance of the concession arrangement and have been based on expected revenue and cost over the life of the PPP contract, discounted at the market rate.

Goodwill arising on acquisitions will be reviewed for impairment at each year end and will be written down to nil by the end of the PPP contract on the basis of the forecasted discounted profitability of the acquired companies.

A4. Intangible assets and goodwill continued

Assets in the course of construction (AICC)

No borrowing costs were capitalised and included in the carrying value of AICC during the year.

£159k (2018: £312k) of research and development expenditure was recognised as an expense during the period. The following intangible assets are deemed to be material to the Group and Company's financial statements:

Description	Carrying amount	Remaining amortisation period
MC2 implementation (mobile work management)	£1.9m	4
Water mains studies	£1.7m	4
CBC implementation (customer billing)	£1.8m	3
Asset data acquisition and improvement	£1.2m	5
Metering related software	£0.8m	7
Drainage area plans	£0.6m	6
Used water networks modelling	£0.8m	9
Integrated delivery	£0.6m	9
Goodwill arising on acquisitions	£22.92m	13

The contractual commitments for the acquisition of intangible assets as at 31 March 2019 are £7,893k (2018: £3,819k).

A5. Investments

	Company	
	At 31 March 2019 £	At 31 March 2018 £
Investment in subsidiaries	**1**	1
Total	**1**	1

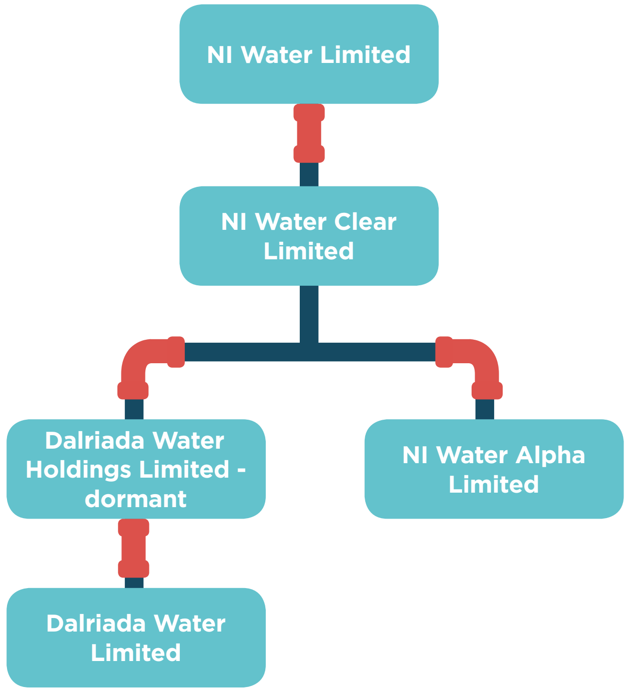
Principal subsidiary undertakings	Country of incorporation	Registered office address	% Ordinary shares and votes held	Principal activity
NI Water Clear Limited	Northern Ireland	Westland House, 40 Old Westland Road, Belfast BT14 6TE	100	Holding company
Dalriada Water Holdings Limited *	Northern Ireland	Westland House, 40 Old Westland Road, Belfast BT14 6TE	100	Holding company
NI Water Alpha Limited *	Northern Ireland	Dunore Point Water Treatment Works, 9 Dunore Road, Aldergrove, Crumlin BT29 4DZ	100	Operation and maintenance of clean water treatment facilities
Dalriada Water Limited **	Northern Ireland	Dunore Point Water Treatment Works, 9 Dunore Road, Aldergrove, Crumlin BT29 4DZ	100	Construction and financing of clean water treatment facilities

* Owned by NI Water Clear Limited
** Owned by Dalriada Water Holdings Limited

A5. Investments continued

List of subsidiaries

Set out below is a list of material subsidiaries of the Group.



Acquisition of subsidiary

On 20 November 2017, the Group subscribed 100% of the shares and voting interests in NI Water Clear Limited, which acquired 100% of the shares and voting interests in both Dalriada Water Holdings Limited (dormant) and NI Water Alpha Limited. Dalriada Water Holdings Limited owns 100% of the shares and voting interests in Dalriada Water Limited in addition to the aquisition of the rights to a subordinated liability.

a) Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred.

Consideration transferred	£000
Cash	29,126
Purchase of intercompany balances from Kelda Water Services (Alpha) Limited	(3,472)
Settlement of pre-existing relationship	(9,800)
Total consideration transferred	**15,854**

(i) Settlement of pre-existing relationship

NI Water Limited and Dalriada Water Limited are parties to a long term contract under which Dalriada Water Limited provides bulk drinking water supplies to the Company for 25 years ending 29 May 2031. This relationship becomes intra-group once the Company acquired Dalriada Water Limited, and so is settled for the purposes of the consolidated financial statements.

Per IFRS 3 para 5, a loss is recognised by the acquirer for the settlement of a pre-existing contractual relationship equal to the lesser of (i) the amount by which the contract is unfavourable compared with current market terms, and (ii) the contractual settlement provisions (if any).

At the date of acquisition, the potential impact on the contract should there be a reduction in the unitary charge due to the movements in the debt markets was assessed. There were more attractive debt terms available in the market at the date of acquisition when compared to the terms agreed with the lenders in 2007. The Group attributed £9,800k of the consideration transferred to the extinguishment of the long term contract. This was charged to the Income statement and is included within the comparatives in Note D1 Operating Expenses.

A5. Investments continued

b) Acquisition-related costs

The Group incurred acquisition-related costs of £1,080k on legal fees and due diligence costs with £864k out of the total costs being incurred in the current year. These costs were included in 'operating expenses'.

c) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

Fair value of identifiable net liabilities	Dalriada Water Limited £000	NI Water Alpha Limited £000
Property, plant and equipment	-	62
Contract debtor	101,387	-
Inventories	-	158
Trade and other receivables	2,780	674
Cash and cash equivalents	9,361	303
Loans and borrowings – senior debts and subordinated debt	(102,085)	(3,419)
Other financial liabilities – interest rate swaps	(11,453)	-
Trade and other payables	(2,176)	(1,021)
Deferred tax liabilities*	(2,787)	135
Total identifiable net liabilities acquired	**(4,973)**	**(3,108)**

* See Note F1 Movement in deferred tax balance during the year

(ii) Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Senior debts	Discounted cash flows: The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.
Interest rate swaps	Swap models: The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, future prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.

No new information has been obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition that would include adjustments to the above amounts.

A5. Investments continued

d) Goodwill

Goodwill arising from the acquisition was recognised as follows.

	£000
Consideration transferred	15,854
Fair value of identifiable net liabilities – Dalriada Water Limited	4,973
Fair value of identifiable net liabilities – NI Water Alpha Limited	3,108
Goodwill	**23,935**

Goodwill is attributable mainly to the synergies expected to be generated from integrating the acquired companies into the operations of NI Water over the remainder of the PPP contract. None of the goodwill recognised is expected to be deductible for tax purposes.

A6. Other investments

	Group		Company	
	At 31 March 2019 £000	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
Non-current investments				
15,278 ordinary 'A' shares	**15**	28	**15**	28
Total	**15**	28	**15**	28

The shares relate to an investment in WRc PLC. WRc carries out research in the water, waste and environment sectors. The market value at 31 March 2019 was £1.00 per ordinary share (2018: £1.85). The fair value adjustment of £13k has been debited to Other Comprehensive Income and has been debited to an Available for Sale reserve.

A7. Inventories

	Group		Company	
	At 31 March 2019 £000	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
Raw materials and consumables	**3,126**	2,673	**2,954**	2,470
Work in progress	**-**	-	**-**	-
Total	**3,126**	2,673	**2,954**	2,470

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

During the year raw materials, consumables and work in progress issued from stores and recognised within operating costs for the Group amounted to £4,066k (2018: £674k) (Company: £401k, 2018: £628k). The inventory held in stores is a component of total inventories. In the year ending 31 March 2019 the write-down of inventories to net realisable value amounted to £60k (2018: £60k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2018: £60k). The write-downs are included in operating expenses.

A8. Cash and cash equivalents

	Group		Company	
	At 31 March 2019 £000	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
Bank balances	**17,764**	10,429	**6,718**	1,893
Call deposits	**1,013**	2,004	**1,013**	2,004
Cash and cash equivalents	**18,777**	12,433	**7,731**	3,897

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in Note B4.

Statutory Accounts

A9. Non-current assets held for sale

The Company's Land Management Department is focused on selling the properties no longer required for operational purposes. Efforts to sell the assets have commenced and where the sale is expected by March 2020 these properties have been classified as held for sale in current assets.

The movement in non-current assets held for sale is as follows:

	Group		Company	
	At 31 March 2019 £000	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
Balance at 1 April	**130**	790	**130**	790
Adjustment for opening balance	**-**	7	**-**	7
Net transfer from investment properties	**-**	(4)	**-**	(4)
Net transfer to investment properties	**(12)**	(209)	**(12)**	(209)
Impairment/Depreciation	**-**	-	**-**	-
Disposals	**(50)**	(454)	**(50)**	(454)
Balance at 31 March	**68**	130	**68**	130

A gain of £256k (2018:£355k) on disposal of non-current assets held for sale is included within 'Other income' in the SOCI.

B. How we are financed

NI Water Limited is funded from a number of sources. This section contains the notes to the SOFP. It sets out the borrowings we receive from our Shareholder, the DfI, which is used to partially finance our capital investment programme. We pay interest on our loans and receive interest on any funds which from time-to-time we have available for short term investments. Our capital and reserves note shows the total equity attributable to the Shareholder including the dividend that is paid. For more information on how we are financed see pages 62 to 63. For further information on the relevant accounting policies applied in this section please see section G1.

B1. Loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and liquidity risk, see Note B4.

	Group		Company	
	At 31 March 2019 £000	At 31 March 2018 £000	At 31 March 2019 £000	At 31 March 2018 £000
Non-current liabilities				
Capital loan notes	**1,146,560**	1,082,560	**1,146,560**	1,082,560
Bank loans	**77,303**	83,311	**-**	-
Finance lease liabilities	**108,904**	112,654	**191,307**	198,004
Total	**1,332,767**	1,278,525	**1,337,867**	1,280,564
Current liabilities				
Current portion of bank loans	**5,455**	4,081	**-**	-
Current portion of finance lease liabilities	**3,750**	3,056	**6,697**	5,706
Total	**9,205**	7,137	**6,697**	5,706

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Group					
			At 31 March 2019		At March 2018	
	Nominal interest rate	Year of maturity	Face value £000	Carrying amount £000	Face value £000	Carrying amount £000
Capital loan notes	5.25%	2027	**627,560**	**627,560**	627,560	627,560
Capital loan notes	Gilt + 0.85%	2027	**356,000**	**356,000**	356,000	356,000
Capital loan notes	Gilt + 0.85%	2034	**163,000**	**163,000**	99,000	99,000
Bank loan - EIB	5.18%	2030	**36,745**	**38,918**	38,984	41,420
Bank loan - RBC	LIBOR + margin	2029	**39,947**	**43,840**	41,788	45,972
PPP finance lease liabilities – Alpha	5.81%	2031	**-**	**-**	-	-
PPP finance lease liabilities – Omega	3.67%	2032	**110,124**	**110,124**	112,692	112,692
PPP finance lease liabilities – Kinnegar	3.99%	2024	**2,530**	**2,530**	3,018	3,018
Total			**1,335,906**	**1,341,972**	1,279,042	1,285,662

The secured bank loans are secured over trade receivables within Dalriada Water Limited with a carrying amount of £98,969k.

B1. Loans and borrowings continued

	Company					
			At 31 March 2019		At March 2018	
	Nominal interest rate	Year of maturity	Face value £000	Carrying amount £000	Face value £000	Carrying amount £000
Capital loan notes	5.25%	2027	**627,560**	**627,560**	627,560	627,560
Capital loan notes	Gilt + 0.85%	2027	**356,000**	**356,000**	356,000	356,000
Capital loan notes	Gilt + 0.85%	2034	**163,000**	**163,000**	99,000	99,000
PPP finance lease liabilities – Alpha	5.81%	2031	**85,350**	**85,350**	88,000	88,000
PPP finance lease liabilities – Omega	3.67%	2032	**110,124**	**110,124**	112,692	112,692
PPP finance lease liabilities – Kinnegar	3.99%	2024	**2,530**	**2,530**	3,018	3,018
Total			**1,344,564**	**1,344,564**	1,286,270	1,286,270

The capital loan notes (denominated in GBP) have been issued under the instruments constituting £1,280,200k Fixed Coupon Unsecured loan notes 2027 and £600,000k Fixed Coupon Unsecured loan notes 2034. During the year to 31 March 2019, £64m of loan notes were issued under the £600,000k Fixed Coupon Unsecured loan notes 2034 instrument (2018: £69m). Capital loan notes are issued to DfI and those issued under the £1,280,200k Fixed Coupon Unsecured loan notes instrument are repayable in full in 2027 and those issued under the £600,000k Fixed Coupon Unsecured loan notes instrument are repayable in full in 2034. All loan notes in issue before 31 March 2010 carry a fixed rate of interest of 5.25%. Any loan notes issued after 31 March 2010 carry fixed interest rates of 0.85% above the reference gilt rate as published by the UK HM Government Debt Management Office on the day of issue of the loan note. The gilt rates applying to loan drawdowns subsequent to 31 March 2010 range from 1.56% to 4.42%.

Finance lease liabilities

Finance lease liabilities relate to PPP contracts outlined in Note A2. Finance lease liabilities are payable as follows:

	Group					
	At 31 March 2019			At 31 March 2018		
	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	**15,928**	**12,178**	**3,750**	15,650	12,594	3,056
Between one and five years	**63,885**	**43,171**	**20,714**	63,652	45,450	18,202
More than 5 years	**133,775**	**45,585**	**88,190**	149,936	55,484	94,452
Total	**213,588**	**100,934**	**112,654**	229,238	113,528	115,710

B1. Loans and borrowings continued

	Company					
	At 31 March 2019			At 31 March 2018		
	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	**24,913**	**18,215**	**6,697**	24,532	18,826	5,706
Between one and five years	**103,419**	**64,730**	**38,689**	101,742	68,153	33,589
More than 5 years	**217,429**	**64,810**	**152,618**	244,018	79,603	164,415
Total	**345,761**	**147,755**	**198,004**	370,292	166,582	203,710

B2. Finance income and finance costs

Recognised in profit or loss

	Group	
	Year to 31 March 2019 £000	Year to 31 March 2018 £000
Interest income on bank deposits	**158**	65
Financial liabilities at fair value through profit and loss – net change in fair value	**550**	1,056
Impairment of senior loan debt fair valued at acquisition date	**552**	-
Net finance income	**1,260**	1,121
Financing charges on pension scheme	**(460)**	(1,600)
Interest expense on financial liabilities measured at amortised cost	**(49,270)**	(44,678)
Interest on PPP financing arrangements	**(12,594)**	(17,001)
Finance costs	**(62,324)**	(63,279)
Net finance costs recognised in profit or loss	**(61,064)**	(62,158)

All finance income and finance costs above relate to assets/(liabilities) not at fair value through profit or loss except for financial liabilities held at fair value. Of the above amount £49,789k (2018: £48,365k) was payable by the Company to DfI in relation to loan notes issued (see Note B1 'Loans and borrowings' and Note G4 'Related parties'). Interest of £5,014k was capitalised by the Group in the year (2018: £5,361k).

B3. Capital and reserves

Share capital

	Company	
	Ordinary shares	
	At 31 March 2019 £000	At 31 March 2018 £000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000

B3. Capital and reserves continued

Ordinary shares

At 31 March 2019 the authorised share capital of the Company comprised 500 million ordinary shares (2018: 500m) with a par value of £1 each.

All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends as declared from time-to-time and is entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Statutory distributable reserve

The statutory distributable reserve was established under enabling legislation.

Dividends

The following dividends were declared and paid by the Company.

	Company	
	Year to 31 March 2019 £000	Year to 31 March 2018 £000
5.29 pence per allotted ordinary share (2018: 4.90 pence)	**26,461**	24,524

The dividends recorded in each financial year represent the final dividend of the preceding financial year.

B4 Financial instruments

The Group and Company establishes an allowance for impairment of water, sewerage and trade effluent customer debt by applying a range of expected recovery rates to an aged debt profile. The expected recovery rates are based on the risk of default across different industries (derived from historical collection data and management judgement) with categorisation into high, medium or low risk. A recovery rate profile across the aging categories is set for each of the three risk categories, which reflects the relative risks of collection. All high and medium risk debt is 100% provided for if over one year old, whereas the low risk category is 100% provided for when over three years old. Separate allowances are made for debt arising from test meters, those customers on repayment plans and for debt considered uncollectible. The impairment percentages are reviewed for accuracy on an annual basis. The Group and Company believes that the unimpaired amounts that are past due are still collectible and no impairment allowance is necessary in respect of trade receivables not past due.

The Group and Company also has debtors associated with miscellaneous income. The Group and Company establishes an allowance for impairment for this debt by applying a range of expected recovery rates to an aged debt profile based on historical collection data for this type of customer. A provision of 100% has been applied for all miscellaneous debt over one year.

Impairment losses

The aging and impairment losses of loans and receivables at the reporting date were:

	Group			
	Gross	Impairment	Gross	Impairment
	At 31 March 2019		At 31 March 2018	
	£000	£000	£000	£000
Not past due	**20,105**	**150**	19,857	283
Past due 0-30 days	**2,055**	**56**	2,106	56
Past due 31-60 days	**569**	**38**	607	31
Past due 61-90 days	**244**	**16**	255	17
Past due 91-120 days	**262**	**57**	281	77
Past due 121-150 days	**164**	**79**	225	111
Past due 151-365 days	**430**	**338**	791	567
Past due 1-2 years	**558**	**553**	786	775
Past due 2+ years*	**432**	**401**	595	548
Total	**24,819**	**1,688**	25,503	2,465

*includes contractual debtors where there are fewer concerns over recoverability and therefore no provision for impairment.

B4. Financial instruments continued

The above figures include amounts relating to accrued income included in the SOFP. The Group and Company holds no collateral in respect of these financial assets. The aging of trade receivables is based on detailed trade receivables listings and management's best estimate of the debt profile. There are no individual customers who account for more than 5% of total net trade and other receivable balances.

All individual gross receivables included above have some element of provision for impairment.

Impairment losses

The aging and impairment losses of loans and receivables at the reporting date were:

	Company			
	Gross	**Impairment**	Gross	Impairment
	At 31 March 2019		At 31 March 2018	
	£000	**£000**	£000	£000
Not past due	**20,105**	**150**	19,857	283
Past due 0-30 days	**2,055**	**56**	2,106	56
Past due 31-60 days	**569**	**38**	607	31
Past due 61-90 days	**244**	**16**	255	17
Past due 91-120 days	**262**	**57**	281	77
Past due 121-150 days	**164**	**79**	225	111
Past due 151-365 days	**430**	**338**	791	567
Past due 1-2 years	**558**	**553**	786	775
Past due 2+ years*	**432**	**401**	686	548
Total	**24,819**	**1,688**	25,594	2,465

*includes contractual debtors where there are fewer concerns over recoverability and therefore no provision for impairment

The above figures include amounts relating to accrued income included in the SOFP. The Company holds no collateral in respect of these financial assets. The aging of trade receivables is based on detailed trade receivables listings and management's best estimate of the debt profile. There are no individual customers who account for more than 5% of total net trade and other receivable balances.

All individual gross receivables included above have some element of provision for impairment.

The aging of loans and receivables at the reporting date can also be shown as follows:

	Group	
	At 31 March 2019 £000	Year to 31 March 2018 £000
Not past due	**19,214**	18,785
Past due 0-30 days	**2,195**	2,150
Past due 31-60 days	**597**	572
Past due 61-90 days	**247**	231
Past due 91-120 days	**240**	206
Past due 121-150 days	**114**	166
Past due 151-365 days	**388**	751
Past due 1-2 years	**574**	1,061
Past due 2+ years	**1,250**	1,581
Total	**24,819**	25,503

This analysis takes an alternative view of aging with most customer balances allocated to the aging category of the oldest invoice outstanding on that account. Certain customer balances have not been restated in this way as it has been assumed that there is no additional risk of non-collection on these accounts due to the existence of the older unpaid invoices on the account. These accounts include customers in the public sector, key accounts, customers on direct debit or repayment plans and accounts with invoices under query.

B4. Financial instruments continued

	Company	
	At 31 March 2019 £000	Year to 31 March 2018 £000
Not past due	**19,214**	18,785
Past due 0-30 days	**2,195**	2,150
Past due 31-60 days	**597**	572
Past due 61-90 days	**247**	231
Past due 91-120 days	**240**	206
Past due 121-150 days	**114**	166
Past due 151-365 days	**388**	751
Past due 1-2 years	**574**	1,061
Past due 2+ years	**1,250**	1,672
Total	**24,819**	25,594

The movement in the allowance for impairment in respect of receivables during the year was as follows:

	Group and Company	
	At 31 March 2019 £000	At 31 March 2018 £000
Balance at 1 April	**2,465**	3,182
New provisions	**1,263**	1,627
Debt provision utilised	**(415)**	(415)
Provision released unused	**(1,625)**	(1,929)
Balance at 31 March	**1,688**	2,465

The Group uses an allowance matrix to measure the Expected Credit Losses (ECLs) of the trade receivables from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, age of customer relationship and industry within which the customer operates.

The calculation of the ECL under IFRS9 has not resulted in any material differences to that calculated under IAS39.

B4. Financial instruments continued

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments.

31 March 2019

	Group						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years 000	2-5 years £000	More than 5 years £000
Capital loan notes	1,146,560	(1,582,616)	(25,524)	(25,524)	(50,908)	(152,863)	(1,327,797)
Bank loans	82,758	(76,692)	(2,891)	(2,564)	(8,535)	(18,162)	(44,540)
Finance lease liabilities	112,654	(213,588)	(7,964)	(7,964)	(16,208)	(47,678)	(133,774)
Trade and other payables	119,960	(119,960)	(118,460)	-	-	(1,500)	-
Derivative financial instrument*	9,846	(9,846)	-	-	-	-	(9,846)
Total	**1,471,778**	**(2,002,702)**	**(154,839)**	**(36,052)**	**(75,651)**	**(220,203)**	**(1,515,957)**

* Derivative financial instrument is related to the secured bank loan to fix the variable interest rate to a fixed interest rate.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 March 2018

	Group						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	1,082,560	(1,553,737)	(25,029)	(24,892)	(50,059)	(149,766)	(1,303,991)
Bank loan	87,392	(80,772)	(2,015)	(2,066)	(9,350)	(16,784)	(50,557)
Finance lease liabilities	115,710	(229,238)	(7,825)	(7,825)	(15,928)	(47,724)	(149,936)
Trade and other payables	126,471	(126,471)	(124,463)	-	-	(2,008)	-
Derivative financial instrument*	10,397	(10,397)	-	-	-	-	(10,397)
Total	**1,422,530**	**(2,000,615)**	**(159,332)**	**(34,783)**	**(75,337)**	**(216,282)**	**(1,514,881)**

* Derivative financial instrument is related to the secured bank loan to fix the variable interest rate to a fixed interest rate.

Details of the timing of the cash outflows in respect of provisions are set out in Note D3.

B4. Financial instruments continued

31 March 2019

	Company						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	1,146,560	(1,582,616)	(25,524)	(25,524)	(50,908)	(152,863)	(1,327,797)
Finance lease liabilities	198,004	(345,760)	(12,456)	(12,456)	(25,297)	(78,122)	(217,429)
Trade and other payables	121,767	(121,767)	(120,267)	-	-	(1,500)	-
Total	**1,466,331**	**(2,050,143)**	**(158,247)**	**(37,980)**	**(76,205)**	**(232,485)**	**(1,545,226)**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 March 2018

	Company						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	1,082,560	(1,553,737)	(25,029)	(24,892)	(50,059)	(149,766)	(1,303,991)
Finance lease liabilities	203,710	(370,294)	(12,266)	(12,266)	(24,913)	(76,829)	(244,020)
Trade and other payables	127,199	(127,199)	(125,191)	-	-	(2,008)	-
Total	**1,413,469**	**(2,051,230)**	**(162,486)**	**(37,158)**	**(74,972)**	**(228,603)**	**(1,548,011)**

Details of the timing of the cash outflows in respect of provisions are set out in Note D3.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group	
	Carrying amount	
	At 31 March 2019 £000	At 31 March 2018 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,298,132)**	(1,239,690)
Total	**(1,298,132)**	(1,239,690)
Variable rate instruments		
Financial assets	**18,777**	12,433
Financial liabilities*	**(43,840)**	(45,972)
Total	**(25,063)**	(33,539)

* Financial liabilities of £43,840k is at variable rate but the Group has entered into a derivative financial instrument contract to fix the interest rate payable.

B4. Financial instruments continued

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Company	
	Carrying amount	
	At 31 March 2019 £000	At 31 March 2018 £000
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	**(1,344,564)**	(1,286,270)
Total	**(1,344,564)**	(1,286,270)
Variable rate instruments		
Financial assets	**7,731**	3,897
Financial liabilities	-	-
Total	**7,731**	3,897

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at Fair Value Through Profit or Loss (FVTPL) and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss or cash flow.

Fair values versus carrying amounts

The following tables show the carrying amounts and fair values of financial assets and liabilities including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Group					
	Note	FVOCI - Equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Fair value - hedging instruments £000	Total carrying amount £000
31 March 2019						
Financial assets not measured at fair value						
Cash and cash equivalents	A8	-	18,777	-	-	**18,777**
Trade and other receivables	C5	-	10,444	-	-	**10,444**
Unbilled income	C5	-	12,687	-	-	**12,687**
Financial assets measured at fair value						
Investment securities - Equity securities	A6	15	-	-	-	**15**
Total		**15**	**41,908**	**-**	**-**	**41,923**
Financial liabilities not measured at fair value						
Finance lease liabilities	B1	-	-	(112,654)	-	**(112,654)**
Trade payables	D2	-	-	(104,124)	-	**(104,124)**
Other payables	D2	-	-	(15,836)	-	**(15,836)**
Loans and borrowings	B1	-	-	(1,146,560)	-	**(1,146,560)**
Bank loans	B1	-	-	(82,758)	-	**(82,758)**
Financial liabilities measured at fair value						
Interest rate swap	D2	-	-	-	(9,846)	**(9,846)**
Total		**-**	**-**	**(1,461,932)**	**(9,846)**	**(1,471,778)**

B4. Financial instruments continued

	Group					
	Note	FVOCI - Equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Fair value - hedging instruments £000	Total carrying amount £000
31 March 2018						
Financial assets not measured at fair value						
Cash and cash equivalents	A8	-	12,433	-	-	**12,433**
Trade and other receivables	C5	-	11,567	-	-	**11,567**
Unbilled income	C5	-	11,469	-	-	**11,469**
Financial assets measured at fair value						
Investment securities - Equity securities	A6	28	-	-		**28**
Total		**28**	**35,469**	**-**	**-**	**35,497**
Financial liabilities not measured at fair value						
Finance lease liabilities	B1	-	-	(115,710)	-	**(115,710)**
Trade payables	D2	-	-	(110,828)	-	**(110,828)**
Other payables	D2	-	-	(15,643)	-	**(15,643)**
Loans and borrowings	B1	-	-	(1,082,560)	-	**(1,082,560)**
Bank loans	B1	-	-	(87,392)	-	**(87,392)**
Financial liabilities measured at fair value						
Interest rate swap	D2	-	-	-	(10,397)	**(10,397)**
Total		**-**	**-**	**(1,412,133)**	**(10,397)**	**(1,422,530)**

The carrying amount of all financial assets and liabilities not measured at fair value, with the exception of loans, borrowings and finance lease liabilities, is considered to be a reasonable approximation of fair value. The fair value of loans and borrowings, which includes third party borrowings, is £1,422m (2018: £1,359m). Accounting policies 1(c) outlines the background to PC15. The uncertainty in relation to this would normally have an impact on the credit rating of loans and borrowings and the interest rate used to calculate fair values. It has been assumed that no change in the credit risk premium has occurred in relation to the capital loan notes of loans and borrowings because all loans and borrowings are provided by the Shareholder and the Group has no access to external finance markets for existing or future borrowings. Included within the £1,426m fair value of loans and borrowings are £87m in respect of bank loans which were fair valued on acquisition. As the bank loans were fair valued at the point of acquisition, the fair value is equivalent to the carrying amount. Further details on the terms and year end balances can be found in Note B1. The loans and borrowings are categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The derivative financial instrument (interest rate swap) is categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The investment securities are categorised within Level 1 in the fair value hierarchy.

The following table shows the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs
Loans and borrowings*	Discounted cash flows	Not applicable
Interest rate swaps	Swap models	Not applicable

*Loans and borrowings include capital loan notes issued to the Company's sponsoring department, DfI, and third party bank borrowings.

B4. Financial instruments continued

	Company				
	Note	FVOCI - Equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Total carrying amount £000
31 March 2019					
Financial assets not measured at fair value					
Cash and cash equivalents	A8	-	7,731	-	**7,731**
Trade and other receivables	C5	-	45,492	-	**45,492**
Unbilled income	C5	-	12,687	-	**12,687**
Financial assets measured at fair value					
Investment securities - Equity securities	A6	15	-	-	**15**
Total		**15**	**65,910**	**-**	**65,925**
Financial liabilities not measured at fair value					
Finance lease liabilities	B1	-	-	(198,004)	**(198,004)**
Trade payables	D2	-	-	(105,991)	**(105,991)**
Other payables	D2	-	-	(15,776)	**(15,776)**
Loans and borrowings	B1	-	-	(1,146,560)	**(1,146,560)**
Total		**-**	**-**	**(1,466,331)**	**(1,466,331)**

	Company				
	Note	FVOCI - Equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Total carrying amount £000
31 March 2018					
Financial assets not measured at fair value					
Cash and cash equivalents	A8	-	3,897	-	**3,897**
Trade and other receivables	C5	-	41,480	-	**41,480**
Unbilled income	C5	-	11,469	-	**11,469**
Financial assets measured at fair value					
Investment securities - Equity securities	A6	28	-	-	**28**
Total		**28**	**56,846**	**-**	**56,874**
Financial liabilities not measured at fair value					
Finance lease liabilities	B1	-	-	(203,710)	**(203,710)**
Trade payables	D2	-	-	(111,615)	**(111,615)**
Other payables	D2	-	-	(15,584)	**(15,584)**
Loans and borrowings	B1	-	-	(1,082,560)	**(1,082,560)**
Total		**-**	**-**	**(1,413,469)**	**(1,413,469)**

The carrying amount of all financial assets and liabilities not measured at fair value, with the exception of loans, borrowings and finance lease liabilities, is considered to be a reasonable approximation of fair value. The fair value of loans and borrowings is £1,339m (2018: £1,272m). Accounting policies 1(c) outlines the background to PC15. The uncertainty in relation to this would normally have an impact on the credit rating of loans and borrowings and the interest rate used to calculate fair values. It has been assumed that no change in the credit risk premium has occurred because all loans and borrowings are provided by the Shareholder and the Company has no access to external finance markets for existing or future borrowings. Further details on the terms and year end balances can be found in Note B1. The loans and borrowings are categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The investment securities are categorised within Level 1 in the fair value hierarchy.

The following table shows the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs
Loans and borrowings*	Discounted cash flows	Not applicable

*Loans and borrowings include capital loan notes issued to the Company's sponsoring department, DfI.

C. Revenue and receivables

This section sets out the income which NI Water receives from its customers and the amounts owed to it at year end. In accordance with the policy set by the Northern Ireland Executive the Group and Company does not bill its domestic customers and in lieu receives a subsidy from the DfI. Non-domestic customers are charged for our services. In addition we adopt assets (mainly underground sewers) and their value is included as income. For more information on our income see page 64.

For further information on the relevant accounting policies applied in this section please see section G1.

C1. Revenue

	Group	
	Year to 31 March 2019 £000	Year to 31 March 2018 £000 (Restated)
Customer subsidy provided by DfI	**299,926**	290,437
Customer income	**79,207**	76,305
Road drainage income provided by DfI	**21,861**	21,047
Transfers of assets from customers	**3,145**	2,929
Connection and infrastructure charges	**10,510**	9,599
Other third party contributions	**1,793**	3,239
Total	**416,442**	403,556

Customer subsidy provided by DfI

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

Customer income

The revenue has been received (excluding VAT) in the ordinary course of business for services provided and in respect of unbilled charges. These unbilled charges relate to measured customers who at the end of the financial year have consumed supplies that have not yet been billed. An estimate is made of the value of the outstanding charges at year end and this is recognised in revenue.

Road drainage income provided by DfI

This revenue from DfI Transport NI represents the recovery of the costs incurred by the Company in dealing with the run-off of water from roads and footpaths.

Transfers of assets from customers

In 2018/19 the Group and Company have adopted IFRS 15 and changed its accounting policy such that the value of transfers of assets from customers £34,295k (2018: £31,145k) has been taken to a deferred credit reserve and amortised over the life of the related asset (see Note C6). The amount recognised as income in the current year is £3,145k (2018: £2,929k).

Connection and infrastructure charges

Connection charges relate to the cash charge to customers to connect a property to the water or sewerage network. This charge covers the capital cost of the connection. Infrastructure charges are also levied at the point of connection to the network.

Infrastructure charges income is used to partly fund the overall capital programme. Connection and infrastructure charges are recognised in revenue when services have been supplied to the customer.

Other third party contributions

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

C2. Deferred income

Deferred income classified as current consists of deferred revenue associated with the annual unmeasured water bill cycle and the portion of deferred government grants that will be recognised as income in the next year. Deferred income classified as non-current consists of the non-current portion of deferred government grants and adopted assets which have been recognised as deferred income under IFRS 15 Revenue.

	Group		Company	
	At 31 March 2019 £000	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
Government grants	**8,242**	7,077	**8,242**	7,077
Customer billing in advance	**2,411**	2,344	**2,411**	2,344
Adopted assets	**418,643**	387,493	**418,643**	387,493
Total	**429,296**	396,914	**429,296**	396,914
Non-current	**426,504**	394,211	**426,504**	394,211
Current	**2,792**	2,703	**2,792**	2,703
Total	**429,296**	396,914	**429,296**	396,914

The Group and Company credited £1,503k (2018: £1,172) to capital grants during the year. The balance of grants noted above relates to awards made previously to Water Service. All grants have been recognised as deferred income, and are being amortised over the useful economic life of the related asset. New grants received during the year of £1,503k relates to AICC and are expected to be amortised over the expected useful economic life of the related assets when the assets are expected to be commissioned from December 2020.

C3. Other income

	Group	
	Year to 31 March 2019 £000	Year to 31 March 2018 £000
Net gain on sale of property, plant and equipment	**551**	1,035
Amortisation of deferred grants and contributions	**360**	359
Total	**911**	1,394

C4. Trade and other receivables

	Group		Company	
	At 31 March 2019 £000	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
Trade and other receivables from related parties (see Note G4)	**1,959**	2,001	**1,959**	2,001
Trade and other receivables from subsidiaries	**-**	-	**35,048**	29,913
Trade receivables	**8,485**	9,566	**8,485**	9,566
Other receivables	**10,529**	12,163	**10,522**	12,670
Total	**20,973**	23,730	**56,014**	54,150
Current	**20,973**	23,730	**56,014**	54,150

At 31 March 2019 other receivables include VAT receivable of £5,579k (2018: £5,021k) for the parent Company.

C5. Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Group		Company	
	Note	**At 31 March 2019 £000**	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
Trade and other receivables	B4	**10,444**	11,567	**45,492**	41,480
Unbilled income	B4	**12,687**	11,469	**12,687**	11,469
Cash and cash equivalents	A8	**18,777**	12,433	**7,731**	3,897
Total		**41,908**	35,469	**65,910**	56,846

The total exposure to credit risk at the reporting date is with UK counterparties, and these are GBP denominated. All financial assets, which are subject to credit risk, are measured at amortised cost.

The maximum exposure to credit risk for trade and other receivables and unbilled income at the reporting date by type of counterparty was:

	Group		Company	
	Carrying amount			
	At 31 March 2019 £000	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
End-user customers	**23,131**	23,036	**55,574**	52,949

The maximum exposure to cash and cash equivalents (Note A8) is £18,777k (2018: £12,433k). The majority of this balance relates to monies held at the Company's principal banker, Danske Bank, and monies held at Dalriada Water Limited's principal banker, Natwest Plc.

C6. Prior year adjustment

At the year end, a prior year adjustment was made to the Group and Company's financial statements to account for a change in accounting policy on the implementation of IFRS 15 Revenue in relation to transfers of assets from customers for the year 31 March 2019.

The effect of this adjustment on the Group's consolidated SOCI for the year to 31 March 2018 was as follows:

Consolidated statement of comprehensive income to 31 March 2018

	Group		
	As previously stated £000	**Effect £000**	**As restated £000**
Revenue	431,772	(28,216)	**403,556**
Other income	1,394	-	**1,394**
Operating expenses	(276,218)	-	**(276,218)**
Research and development expenses	(312)	-	**(312)**
Results from operating activities	156,636	(28,216)	**128,420**
Net finance costs	(62,158)	-	**(62,158)**
Profit before income tax	94,478	(28,216)	**66,262**
Income tax expense	(18,092)	4,797	**(13,295)**
Profit for the year	76,386	(23,419)	**52,967**

C6. Prior year adjustment continued

The effect of this adjustment on the Group and Company's statement of financial position (SOFP) at 31 March 2018 was as follows:

Consolidated statement of financial position at 31 March 2018

	Group		
	As previously stated £000	Effect £000	As restated £000
Assets			
Total non-current assets	3,022,571	-	**3,022,571**
Total current assets	51,887	-	**51,887**
Total assets	3,074,458	-	**3,074,458**
Equity			
Share capital	500,000	-	**500,000**
Statutory distributable reserve	171,690	-	**171,690**
Retained earnings	722,240	(321,619)	**400,621**
Available for sale reserve	(63)	-	**(63)**
Total equity attributable to owner of the Company	1,393,867	(321,619)	**1,072,248**
Liabilities			
Loans and borrowings	1,278,525	-	**1,278,525**
Other payables	12,404	-	**12,404**
Deferred income	6,718	387,493	**394,211**
Provisions	2,705	-	**2,705**
Deferred tax liabilities	220,402	(65,874)	**154,528**
Employee benefit	22,789	-	**22,789**
Total non-current liabilities	1,543,543	**321,619**	**1,865,162**
Total current liabilities	137,048	-	**137,048**
Total liabilities	1,680,591	321,619	**2,002,210**
Total equity and liabilities	3,074,458	-	**3,074,458**

C6. Prior year adjustment continued

Company statement of financial position at 31 March 2018

	Company		
	As previously stated £000	Effect £000	As restated £000
Assets			
Total non-current assets	2,998,159	-	**2,998,159**
Total current assets	73,546	-	**73,546**
Total assets	3,071,705	-	**3,071,705**
Equity			
Share capital	500,000	-	**500,000**
Statutory distributable reserve	171,690	-	**171,690**
Retained earnings	731,183	(321,619)	**409,564**
Available for sale reserve	(63)	-	**(63)**
Total equity attributable to owner of the Company	1,402,810	(321,619)	**1,081,191**
Liabilities			
Loans and borrowings	1,280,564	-	**1,280,564**
Other payables	2,008	-	**2,008**
Deferred income	6,718	387,493	**394,211**
Provisions	2,705	-	**2,705**
Deferred tax liabilities	217,767	(65,874)	**151,893**
Employee benefit	22,789	-	**22,789**
Total non-current liabilities	1,532,551	321,619	**1,854,170**
Total current liabilities	136,344	-	**136,344**
Total liabilities	1,668,895	321,619	**1,990,514**
Total equity and liabilities	3,071,705	-	**3,071,705**

The profit and loss account reserves at 31 March 2018 have been adjusted by £321,619k being an adjustment of £298,200k relating to previous years and £23,419k relating to 2017/18.

The main components of the prior year adjustment is made up of transfers of assets from customers at a value of £387,493k and the associated deferred tax of £65,874k up to 31 March 2018.

D. Purchases and payables

This section sets out the costs incurred by NI Water to provide its services. In addition it provides the notes to the accounts for the SOFP on creditors, provisions and leases.

For further information on the relevant accounting policies applied in this section please see section G1.

D1. Operating expenses

	Group	
	Year to 31 March 2019 £000	Year to 31 March 2018 £000
Depreciation and other amounts written off tangible and intangible assets	**82,197**	80,537
Hire and contracted services	**55,525**	57,059
Staff costs	**65,478**	63,865
Power	**34,275**	29,912
Rates	**26,940**	26,308
Raw materials and consumables	**14,501**	11,376
Sundry operating expenses	**10,702**	11,367
Own work capitalised*	**(15,172)**	(14,006)
Settlement of pre-existing relationship with acquiree**	**-**	9,800
Amortisation of goodwill	**1,014**	-
Total operating expenses	**275,460**	276,218

*Own work capitalised includes payroll costs (see Note E1), materials and overheads.
**Settlement of pre-existing relationship with acquiree relates to the pre-existing contract between NI Water Limited and Dalriada Water Limited which is effectively settled on consolidation (see Note A5) with the write-off as shown.

Refer to page 109 for expenditure on research and development.

The net increase in inventories for the year was £453k (2018: £320k increase).

Impairment losses above are included within the 'operating expenses' line of the SOCI. The events and circumstances leading to the recognition of the impairment losses in investment properties are outlined in Note A3.

	Group	
	Year to 31 March 2019 £000	Year to 31 March 2018 £000
Impairment loss on investment properties/assets classified as held for sale/property, plant and equipment	**-**	-
Impairment (gain) realised on trade receivables	**-**	-
Total	**-**	-

	Group	
	Year to 31 March 2019 £000	Year to 31 March 2018 £000
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**62**	89
Fees payable to the Company's auditor for other services: Audit of the accounts of subsidiaries	**20**	19
Audit of regulatory financial statements	**11**	10
Other assurance opinions (Group)	**22**	22
Total	**115**	140
Amounts receivable by the auditor in respect of:		
Other services relating to taxation	**-**	-
Accounting and regulatory advice (Group)	**11**	11
Total	**11**	11
Total fees paid to the Group auditor	**126**	151

D2. Trade and other payables

	Group		Company	
	At 31 March 2019 £000	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
Payments received on account	**1,539**	1,886	**1,539**	1,886
Trade payables	**2,302**	4,547	**1,027**	1,804
Taxation and social security	**2,237**	1,131	**2,237**	1,107
Accruals – operating expenditure	**46,070**	43,136	**45,896**	42,945
Accruals – capital expenditure	**49,516**	58,312	**49,516**	58,312
Accruals relating to related parties (see Note G4)	**2,460**	1,816	**2,460**	1,816
Accruals relating to subsidiaries	**-**	-	**3,316**	3,745
Total	**104,124**	110,828	**105,991**	111,615

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note B4.

Other payables

	Group		Company	
	At 31 March 2019 £000	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
Non-current – interest rate swap	**9,846**	10,397	**-**	-
Non-current – others	**1,500**	2,007	**1,500**	2,008
Current	**14,336**	13,636	**14,276**	13,576
Total	**25,682**	26,040	**15,776**	15,584

Non-current other payables relates to retentions from capital projects all of which will fall due within two to five years and interest rate swap.

Exposure to currency risk

The Company is not exposed to any significant currency risks.

D3. Provisions

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Balance at 1 April 2018	2,102	350	106	2,891	**5,449**
New Provisions	760	40	-	-	**800**
Utilised	(578)	(54)	-	130	**(502)**
Transferred to accruals	-	-	-	(1,000)	**(1,000)**
Amounts released unused	(375)	(30)	(106)	(66)	**(577)**
Balance at 31 March 2019	**1,909**	**306**	**-**	**1,955**	**4,170**
Non-current	1,146	229	-	1,115	**2,490**
Current	763	77	-	840	**1,680**
Total	**1,909**	**306**	**-**	**1,955**	**4,170**

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Balance at 1 April 2017	1,864	577	106	3,050	**5,597**
New Provisions	872	95	-	-	**967**
Utilised	(705)	(154)	-	-	**(859)**
Amounts released unused	71	(168)	-	(159)	**(256)**
Balance at 31 March 2018	**2,102**	**350**	**106**	**2,891**	**5,449**
Non-current	1,261	263	-	1,181	**2,705**
Current	841	87	106	1,710	**2,744**
Total	**2,102**	**350**	**106**	**2,891**	**5,449**

Public and employer liability claims

The public liability and employer liability claims at 31 March 2019 relate to unsettled claims. The public liability claims principally relate to previous operational incidents and contractors' business interruption incidents in prior years. The provisions represent potential liabilities on these claims above the amount of insurance cover in place. Professional advice has been sought on the potential liability for individual claims. Claims submitted against the Group and Company are in excess of the provisions made as management have made best estimates of the required provisions based on past experience of similar claims. Until claims are progressed through the formal claims process some degree of uncertainty will remain as to the amount and timing of any final settlement figure. The employer liability claims principally relate to incidents incurred by employees on Group and Company premises. A related contingent liability has also been disclosed at Note D4. The contingent liability for public and employer liability of £0.7m represents an amount relating to the value of claims received above the provision included in the financial statements.

Early retirement provisions

The early retirement provision relates to those retirement benefits accruing to those members who took early retirement prior to 1 April 2007. The provision represents the total of retirement benefits due to those members from 31 March 2019 to their official date of retirement. These payments are made on a monthly basis to DoF and the amounts and timing of these should not be subject to any uncertainty.

D3. Provisions continued

Other provisions

Other provisions relates to management's best estimates of the value of entitlement in relation to holiday pay totaling £1,955k (2018: £1,891k) and of third party costs in relation to the resolution of contractual disputes of £Nil (2018: £1,000k).

The expected timing of any resulting outflows of economic benefits is as follows:

31 March 2019

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	763	77	-	840	**1,680**
In the second to fifth years	1,146	229	-	1,115	**2,490**
Over five years	-	-	-	-	**-**
Total	**1,909**	**306**	**-**	**1,955**	**4,170**

31 March 2018

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	841	87	106	1,710	**2,744**
In the second to fifth years	1,261	263	-	1,181	**2,705**
Over five years	-	-	-	-	**-**
Total	**2,102**	**350**	**106**	**2,891**	**5,449**

Provisions greater than one year are not discounted on the basis of materiality.

D4. Contingencies

The Group and Company is disputing liability in some public and employer liability cases. The estimate of the financial effect is £0.7m (2018: £0.6m). 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 Group and Company is disputing a number of claims from contractors amounting to £23.129m (2018: £15.329m) which the Directors consider there is less than a 50% likelihood of a loss. A summary of contingent liabilities is set out below:

	Group		Company	
	At 31 March 2019 £000	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
Public and employer liability	**710**	644	**710**	644
Contractor claims	**23,129**	15,329	**23,129**	15,329
Total	**23,839**	15,973	**23,839**	15,973

D4. Contingencies continued

Debenture to DfI

DfI has entered into deeds of guarantee with the concessionaires of the Alpha and Omega PPP contracts to guarantee all future liabilities of the Company under these contracts.

The Group and Company has entered into an environmental indemnity with DfI and the Department of the Environment (from 9 May 2016 Department of Agriculture, Environment and Rural Affairs (DAERA)) in respect of any future environmental liabilities arising for NI Water. The Group and Company has registered a debenture to counter indemnify DfI in relation to these three guarantees. Under this debenture the Group and Company pledges to DfI by way of first floating charge and as a continuing security for the payment and discharge of the secured liabilities all of the Group and Company's rights to and title, and interest on property, assets rights and revenues. No provision has been made in the financial statements in respect of this guarantee as the conditions under which the liability would crystallise have not been breached.

Parent company guarantee

In accordance with the share acquisition by the 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.

Contingent assets

The Group and Company receives performance bonds from customers in relation to requisition of water mains and sewerage services. The balance of cash bonds held at 31 March 2019 is £12.1m (2018: £10.9m) and this balance is included in accruals (see Note D2). Bonds are only recognised as a capital contribution if customers are in default of agreed conditions. The Group and Company has also received a number of paper performance bonds issued by various financial institutions. These are not recognised in the financial statements. Value placed on paper bonds held at 31 March 2019 is £26.7m (2018: £23.7m). These items are considered contingent assets as an inflow of economic benefits is considered to be remote.

Contingent liability

A legal ruling has been made regarding age discrimination arising from pension scheme transitions arrangements. Court of appeal judgements were made in cases affecting judges pensions (McCloud) and firefighter pensions (Sergeant) which had previously been considered by employment tribunals. The ruling may have implications for other pension schemes, including the NI Water Pension Scheme, which have implemented transitional arrangements for benefits changes. No adjustment has been made to the expected employer contributions to allow for the implications of the appeal relating to McCloud/Sargeant which reviews the lawfulness of the transitional protection arrangements, as it is not possible to assess the impact at this time.

D5. Operating leases

Leases as lessee

Total future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	At 31 March 2019 £000	At 31 March 2018 £000	**At 31 March 2019 £000**	At 31 March 2018 £000
Less than one year	**238**	238	**238**	238
Between one and five years	**887**	904	**887**	904
More than 5 years	**-**	221	**-**	221
Total	**1,125**	1,363	**1,125**	1,363

The Group and Company leases an office building (Capital House, Belfast) and photocopiers under operating leases. The office leases typically run for a period of five to ten years.

During the year ended 31 March 2019 an amount of £238k was recognised as an expense in profit or loss in respect of operating leases (2018: £259k).

E. Our employees

This section sets out information about employee numbers and costs and then provides information on the Group and Company's main pension scheme. The analysis provided in the pension notes is based on IAS 19 estimate of the scheme's assets and liabilities as at 31 March 2019. The value shown in the SOFP calculated on IAS 19 Employee Benefits basis is subject to a number of factors. In this section we provide information to explain the following:

— why the pension liabilities on the balance sheet have changed from one year to another;

— what makes up the charge in the income statement in the year; and

— the amount of the scheme assets and liabilities totalling the net defined benefit pension liability on the balance sheet.

The movement in the IAS 19 Employee Benefits estimate of the defined benefit scheme liability during the year, is the item which singularly has the greatest impact on the SOFP.

The most recent actuarial valuation of the pension scheme completed in 2018 showed a funding deficit of £9m at 31 March 2017. The actuarial valuation of the pension scheme was carried out by Mercers on behalf of the Pension Trustees. The valuation was carried out on a different basis than IAS 19. The Group and Company has agreed with the Trustees to increase its contributions to the Scheme and keep the funding of the Scheme under review.

Most of our employees are members of the NI Water Pension Scheme which is a defined benefit scheme. A number of our employees are members of a defined contribution scheme.

Further information on the analysis of the NI Water Pension Scheme assets and the assumptions underlying the liabilities are set out in Note G3. For more information on Our People see pages 36 to 39.

For further information on the relevant accounting policies applied in this section please see section G1.

E1. Personnel numbers and expenses

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

	Group		Company	
	No. of employees Year to 31 March 2019	No. of employees Year to 31 March 2018	**No. of employees Year to 31 March 2019**	No. of employees Year to 31 March 2018
Directors	**13**	13	**13**	13
Non-industrial staff	**837**	825	**806**	794
Industrial staff	**458**	464	**458**	464
Total staff	**1,308**	1,302	**1,277**	1,271

The gender of persons employed by the Group (including Directors) during the year ended 31 December 2018, analysed by category, was as follows*:

	Group					
	No. of employees Year to 31 December 2018			No. of employees Year to 31 December 2017		
	Male	**Female**	**Total**	Male	Female	Total
Directors and senior managers	**54**	**19**	**73**	52	16	68
Non-industrial staff	**545**	**249**	**794**	540	238	778
Industrial staff	**459**	**1**	**460**	465	2	467
Total staff	**1,058**	**269**	**1,327**	1,057	256	1,313

*Based on statutory returns made to the Equality Commission on a calendar year basis.

E1. Personnel numbers and expenses continued

The gender of persons employed by the Company (including Directors) during the year ended 31 December 2018, analysed by category, was as follows*:

	Company					
	No. of employees Year to 31 December 2018			No. of employees Year to 31 December 2017		
	Male	Female	Total	Male	Female	Total
Directors and senior managers	**54**	**19**	**73**	52	16	68
Non-industrial staff	**516**	**247**	**763**	511	236	747
Industrial staff	**459**	**1**	**460**	465	2	467
Total staff	**1,029**	**267**	**1,296**	1,028	254	1,282

*Based on statutory returns made to the Equality Commission on a calendar year basis.

The aggregate payroll costs for the Group of these persons were as follows:

	Group	
	Year to 31 March 2019 £000	Year to 31 March 2018 £000
Wages and salaries	**47,064**	43,074
Social security costs	**4,794**	4,542
Other pension costs	**13,620**	16,249
Total payroll costs	**65,478**	63,865

An amount of £13,064k (2018: £11,949k) of the above payroll costs has been capitalised as it relates to work carried out by the Group that adds to the value of property, plant and equipment and intangible assets.

E1a Key management personnel short term employee benefit

Detailed information concerning key management personnel's remuneration, bonus payments and pensions is included in the Directors' remuneration report on pages 82 to 86. Key management includes all Board and Executive Committee members. Apart from NI Water Limited, the directors of the Companies in the Group did not receive any emoluments for their services from the date of acquisition.

In summary, key management personnel compensation comprised:

	Year to 31 March 2019 £000	Year to 31 March 2018 £000
Short term employee benefits	**962**	862
Post-employment benefits	**241**	179
Total benefits	**1,203**	1,041

The emoluments of the highest paid Director were £154k (2018: £153k).

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

E1. Personnel numbers and expenses continued

E1b Exit packages

The exit packages for employees who left the Company during the year are reported below. The majority of the exit packages relate to the Voluntary Exit schemes which were used to facilitate the targeted reduction in headcount. The Voluntary Exit schemes are similar to the Northern Ireland Civil Service (NICS) scheme and incorporate the provisions of relevant age discrimination legislation. All applications are considered in terms of overall cost and business need. Overall cost in individual cases is based on length of service and pensionable pay figures. Ill-health retirement costs are met by the pension scheme and are not included in the exit packages.

Exit package cost band £000	Number of compulsory redundancies 31 March 2019	Number of other departures agreed 31 March 2019	Total number of exit packages by cost band 31 March 2019	Number of compulsory redundancies 31 March 2018	Number of other departures agreed 31 March 2018	Total number of exit packages by cost band 31 March 2018
0 - 10	**-**	**1**	**1**	-	-	-
10 - 25	**-**	**13**	**13**	-	6	6
25 - 50	**-**	**4**	**4**	-	1	1
50 - 100	**-**	**1**	**1**	-	3	3
Above 100	**-**	**-**	**-**	-	1	1
Total number	**-**	**19**	**19**	-	11	11
Total cost (£'000)	**-**	**421**	**421**	-	643	643

E1c Off-payroll engagements

In accordance with DoF disclosure guidance - FD (DoF) 02/19, the Company had the following 'off-payroll' engagements at a cost of over £245 per day and engaged for over six months. None of the subsidiaries in the Group had off-payroll engagements as defined by the DoF guidance in the year.

	Year to 31 March 2019 number
Number of off-payroll engagements as at 1 April 2018	**-**
Those caught by IR35: Number engaged directly (via Personal Service Company (PSC) contracted to the Company) and are on the Company's payroll	**-**
Number of engagements which have come onto the payroll	**-**
Number of engagements which have come to an end	**-**
Number of off-payroll engagements as at 31 March 2019	**-**

E2. Employee benefits

The net pension expense before tax recognised in the income statement in respect of the defined benefit scheme is summarised as follows:

Components of defined benefit cost

	Total year to 31 March 2019 £000	Total year to 31 March 2018 £000
Service cost		
Current service costs (operating costs - staff costs)	**11,900**	13,500
Past service costs (operating costs - staff costs)	**37**	1,500
Total service cost	**11,937**	15,000
Net interest cost:		
Interest expense	**6,580**	7,600
Interest income	**(6,120)**	(6,000)
Net interest cost	**460**	1,600
Administration expenses and taxes	**1,000**	1,000
Defined benefit cost included in profit	**13,397**	17,600

The reconciliation of the opening and closing net pension obligations included in the statement of financial position is as follows:

Net defined benefit liability / (asset) reconciliation

	Total year to 31 March 2019 £000	Total year to 31 March 2018 £000
Opening defined benefit liability	**22,789**	65,984
Defined benefit cost included in profit	**13,397**	17,600
Total measurements included in Other Comprehensive Income	**11,341**	(49,614)
Cash flows – employer contributions	**(11,895)**	(11,181)
Closing defined benefit liability	**35,632**	22,789
Actual return on plan assets	**9,352**	7,880

Remeasurement gains and losses are recognised directly in the statement of comprehensive income

	Total year to 31 March 2019 £000	Total year to 31 March 2018 £000
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	**-**	(22,382)
Effect of changes in financial assumptions	**14,573**	(10,113)
Effect of experience adjustments	**-**	(15,239)
Return on plan assets excluding interest income	**(3,232)**	(1,880)
Total remeasurements included in Other Comprehensive Income	**11,341**	(49,614)

E2. Employee benefits continued

Significant assumptions used in this disclosure

Weighted-average assumptions to determine benefit obligation

	Conditions at 31 March 2019	Conditions at 31 March 2018
Rate of increase in salaries	**2.10% for 4 yrs., 3.10% thereafter**	2.00% for 5 yrs., 3.00% thereafter
Rate of increase in pensions in payment and deferred pensions	**3.15%**	3.05%
Discount rate	**2.50%**	2.65%
Inflation assumption - RPI	**3.10%**	3.00%
Inflation assumption - CPI	**2.10%**	2.00%

For more information in relation to the Company's defined benefit pension scheme, see Note G3.

F. Taxation

This section sets out information about the total tax charge and tax liabilities, including current and deferred tax. The current tax charge is the tax payable on this year's taxable profits. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in the accounting and tax bases of profit.

For further information on the relevant accounting policies applied in this section please see section G1.

F1. Taxation

Group Income tax expense

	Year to 31 March 2019 £000	Year to 31 March 2018 £000
Tax recognised in profit or loss current tax expense		
Current year	-	182
Adjustment for prior years	-	(5)
Total	-	177
Deferred tax		
Origination of temporary differences	**(16,041)**	(14,748)
Adjustment to prior years	**(143)**	(188)
Tax rate changes / differences	**1,688**	1,464
Total	**(14,496)**	(13,472)
Total income tax (expense)/credit	**(14,496)**	(13,295)

Tax recognised in other comprehensive income for the year ended 31 March

	Group					
	Year to 31 March 2019			Year to 31 March 2018		
	Before tax £000	Tax benefit/ (expense) £000	Net of tax £000	Before tax £000	Tax (expense)/ benefit £000	Net of tax £000
Defined benefit plan actuarial (losses)/gains	**(11,341)**	**1,928**	**(9,413)**	49,614	(8,434)	41,180
Shares not held for trading – revaluation (losses)/gains	**(13)**	**-**	**(13)**	(13)	-	(13)
Total	**(11,354)**	**1,928**	**(9,426)**	49,601	(8,434)	41,167

F1. Taxation continued

Reconciliation of effective tax rate

	Group			
	%	Year to 31 March 2019 £000	%	Year to 31 March 2018 £000 (Restated)
Profit for the year		**66,174**	-	52,967
Total income tax expense/(credit)		**14,496**	-	13,295
Profit before income tax		**80,670**		66,262
Income tax using the Company's domestic tax rate	**19.00**	**15,326**	19.00	12,588
Non-deductible goodwill	**0.23**	**193**	-	-
Other Non-deductible expenses	**0.65**	**522**	0.17	115
Tax rate changes/differences	**(2.09)**	**(1,688)**	(2.21)	(1,464)
Other timing differences	**-**	**-**	-	-
Adjustment to prior years	**0.17**	**143**	0.29	194
Settlement of pre-existing relationship	**-**	**-**	2.81	1,862
Total		**14,496**		13,295

Factors affecting Group future tax charge

The Group deferred tax for 2018/19 has been calculated at the appropriate tax rate which is expected to apply when assets are realised or liabilities are settled.

In preparing the Group 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 year from 1 April 2019 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 Group companies that were previously loss making that become profit making, with a Group profit of 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 Group 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 by members of the Group.

In the 2018 Budget the Government announced two changes that will have an impact on capital allowances claims in future years as follows:

- From April 2019 there has been a reduction in the annual writing down allowance available for assets in the special rate pool, from 8% to 6%.
- A new allowance for capital expenditure, a Structures and Buildings Allowance, was introduced for eligible costs incurred where all contracts were entered on or after 29 October 2018. Structures and Buildings Allowances will be available when the asset is brought into use at a flat rate of 2% per annum.

F1. Taxation continued

Deferred tax assets and liabilities

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

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Group					
	Assets		Liabilities		Net	
	At 31 March 2019 £000	At 31 March 2018 £000 (Restated)	At 31 March 2019 £000	At 31 March 2018 £000 (Restated)	At 31 March 2019 £000	At 31 March 2018 £000 (Restated)
Property, plant and equipment	**-**	-	**185,532**	176,565	**185,532**	176,565
Transfers of assets from customers*	**(71,169)**	(65,874)	**71,169**	65,874	**-**	-
Intangible assets	**(2,702)**	(1,595)	**-**	-	**(2,702)**	(1,595)
Employee benefits	**(6,061)**	(3,877)	**-**	-	**(6,061)**	(3,877)
Provisions	**(538)**	(519)	**-**	-	**(538)**	(519)
Tax losses carried forward	**(6,432)**	(13,155)	**-**	-	**(6,432)**	(13,155)
Fair value adjustment to senior debt	**(1,031)**	(1,125)	**-**	-	**(1,031)**	(1,125)
Financial instruments	**(1,673)**	(1,767)	**-**	-	**(1,673)**	(1,767)
Net tax (assets)/ liabilities	**(89,606)**	(87,912)	**256,701**	242,439	**167,095**	154,527

* Transfers of assets from customers form part of property, plant and equipment in the SOFP.

	Company					
	Assets		Liabilities		Net	
	At 31 March 2019 £000	At 31 March 2018 £000 (Restated)	At 31 March 2019 £000	At 31 March 2018 £000 (Restated)	At 31 March 2019 £000	At 31 March 2018 £000 (Restated)
Property, plant and equipment	-	-	**177,735**	169,133	**177,735**	169,133
Transfers of assets from customers*	**(71,169)**	(65,874)	**71,169**	65,874	**-**	-
Intangible assets	**(2,702)**	(1,595)	**-**	-	**(2,702)**	(1,595)
Employee benefits	**(6,057)**	(3,874)	**-**	-	**(6,057)**	(3,874)
Provisions	**(538)**	(519)	**-**	-	**(538)**	(519)
Tax losses carried forward	**(4,455)**	(11,252)	**-**	-	**(4,455)**	(11,252)
Net tax (assets)/ liabilities	**(84,921)**	(83,114)	**248,904**	235,007	**163,983**	151,893

* Transfers of assets from customers form part of property, plant and equipment in the SOFP.

F1. Taxation continued

Movement in deferred tax balance during the year

	Group						
	Balance at 31 March 2018 £000 (Restated)	Acquisition £000	Recognised in profit £000	Recognised in other comprehensive income £000	Reclassification £000	Consolidation Adjustment P & L £000	Balance at 31 March 2019 £000
Property, plant and equipment	176,565	-	17,781	-	(9,002)	189	**185,533**
Intangible assets	(1,595)	-	(1,107)	-	-	-	**(2,702)**
Employee benefits	(3,877)	-	(256)	(1,928)	-	-	**(6,061)**
Provisions	(519)	-	(19)	-	-	-	**(538)**
Tax losses carried forward	(13,155)	-	(2,006)	-	9,002	(274)	**(6,433)**
Fair value of adjustment to senior debt	(1,125)	-	-	-	-	94	**(1,031)**
Financial instruments	(1,767)	-	-	94	-	-	**(1,673)**
Re-categorisation	-	-	-	(94)	-	94	**-**
Total	**154,527**		**14,393**	**(1,928)**	**-**	**103**	**167,095**

	Company				
	Balance at 31 March 2018 £000 (Restated)	Recognised in profit £000	Recognised in other comprehensive income £000	Reclassification £000	Balance at 31 March 2019 £000
Property, plant and equipment	169,133	17,604	-	(9,002)	**177,735**
Intangible assets	(1,595)	(1,107)	-	-	**(2,702)**
Employee benefits	(3,874)	(255)	(1,928)	-	**(6,057)**
Provisions	(519)	(19)	-	-	**(538)**
Tax losses carried forward	(11,252)	(2,205)	-	9,002	**(4,455)**
Total	**151,893**	**14,018**	**(1,928)**	**-**	**163,983**

Confirmation over income tax treatments

Dalriada Water Limited has moved to a financial asset basis of accounting for its PFI contract with NI Water Limited. The tax impact has been calculated on the basis that the Company will continue to be entitled to capital allowances, which has been agreed with HMRC.

G. Supplementary notes to the accounts

This section sets out supplementary notes to the accounts. This includes our accounting policies (note that key accounting policies are included at pages 98 to 99), financial risk, details on retirement benefits, related party information and events subsequent to the year end date.

G1. Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (a) (ii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets/liabilities acquired. Any goodwill that arises is tested annually for impairment (see (j) (i)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see (b)).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are require to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. (see Note A5 – List of subsidiaries).

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Financial instruments (policy applicable from 1 April 2018)

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially when the group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objectives is to hold assets to collect contractual cash flows; and

G1. Significant accounting policies continued

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cahs flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. Financial assets at amortised cost – these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI – these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI – these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group 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 group: and
- where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or 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 Group'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.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Intra-group financial instruments

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

G1. Significant accounting policies continued

(iii) 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 protion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied – see below), the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

(iv) Impairment

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL [Trade receivables and contract assets with significant financing component are measured using the general model described above].

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to the credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

G1. Significant accounting policies continued

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

(c) Financial instruments (policy applicable prior to 1 April 2018)

(i) Non-derivative financial assets

The Group and Company initially recognises loans and receivables and deposits on the date that they originate. All other financial assets are recognised initially on the trade date at which the Group and Company becomes a party to the contractual provisions of the instrument. The Group and Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group and Company is recognised as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the SOFP when, and only when, the Group and Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group and Company's receivables are non-derivative financial assets.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method, less any impairment losses. Receivables comprise of trade and other receivables (see Note C4).

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less and are measured at amortised cost.

Other investments

Other investments consist of ordinary shares in WRc PLC (see Note A6). Subsequent to initial recognition these are measured at fair value and the changes are recognised through other comprehensive income. When an investment is impaired or sold the cumulative gain or loss is reclassified to profit or loss (or impairment, reclassification to profit and loss will only occur if there is a sustained change in value for two years).

(ii) Non-derivative financial liabilities

All loans and borrowings are initially recognised at fair value, typically being the consideration received, net of issue costs. Financial liabilities are recognised initially on the trade date at which the Group and Company becomes a party to the contractual provisions of the instrument. The Group and Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. Financial assets and liabilities are offset, and the net amount presented in the SOFP when, and only when, the Group and Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group and Company has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

(iii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

G1. Significant accounting policies continued

(d) Impairment of financial assets

(i) Non-derivative financial assets

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

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group and Company on terms that the Group and Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy. The bad debt provision is based on applying expected recovery rates, based on actual historical cash collection performance, to an aged debt profile. For other investments (equity shares) any impairment is initially recognised through other comprehensive income and the cumulative loss is reclassified to profit or loss if impairment occurs for a second consecutive year.

(ii) Receivables

The Group and Company considers evidence of impairment for receivables. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group and Company uses historical trends of the probability of default, timing of recoveries, and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of certain items of property, plant and equipment was determined by reference to a previous UK GAAP revaluation. The Group and Company elected to apply the optional exemption to use this previous revaluation as deemed cost at 1 April 2009, the date of transition (see Note A1). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located (when there is an obligation to remove the asset), and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Assets in the course of construction

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

(iii) Subsequent costs

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

G1. Significant accounting policies continued

(iv) Infrastructure assets

The infrastructure assets comprise a network of water and used water systems including mains, sewers, impounding and pumped fresh water storage reservoirs, dams, sludge pipelines and sea outfalls. All items of property, plant and equipment within infrastructure assets are subject to depreciation. In accordance with the transition provisions of IFRS 1 (revised), the Group and Company identified the carrying value of these assets as at the inception of the Group and Company and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, have been subject to depreciation over their useful economic lives. All subsequent maintenance expenditure is chargeable directly to the SOCI.

(v) Transfers of infrastructure assets from customers (adopted assets)

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

Adopted assets are valued using the unit costs set during the relevant price control period (currently termed 'PC15'). Revenue is recognised when the infrastructure assets are adopted or, in the case of cash receipts, when the service is performed, e.g., as soon as access to the sewerage/water network is provided.

(vi) Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group and Company will obtain ownership by the end of the lease term. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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

Asset Type	Asset Life
Infrastructure assets	100 - 150 years
Operational assets	40 - 80 years
Buildings	30 - 60 years
Fixed plant	3 - 40 years
Vehicles, mobile plant and equipment	4 - 10 years
Office equipment	3 - 10 years

(f) Investment properties

Investment properties are properties held as surplus to operational requirements or for capital appreciation; but not for immediate sale, use in the supply of services, or for administrative purposes. As permitted by IAS 40, investment properties are measured using the cost model specified in IAS 16 whereby properties are recorded initially at cost and subsequently at cost less accumulated depreciation and any accumulated impairment losses. When property changes use from operational, or occupied, to surplus property it is reclassified from property plant and equipment to investment property. Transfers between classes do not change the carrying amount of the property transferred or the cost of the property for measurement or disclosure purposes (see (j) for further details).

(g) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group and Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure

G1. Significant accounting policies continued

capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009.

Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Other intangible assets

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

(iii) Intangible assets in the course of development

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

(iv) Subsequent expenditure

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

(v) Amortisation

Amortisation is based on the cost of the asset, less its residual value. Amortisation is recognised in the 'operating expenses' line of the SOCI on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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

Asset Type	Asset Life
Computer software	3 - 7 years
Capital studies infrastructure	10 years

(h) Leased assets

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

Public Private Partnership (PPP) transactions

Where public service obligations are met in conjunction with other operators through a partnership arrangement the principles of IFRIC 12 are applied. Assets are included within property, plant and equipment and amounts due to PPP partners are included in PPP credits. Assets included in property plant and equipment are depreciated in accordance with normal accounting policies. The present value of the PPP financing is included within loans and borrowings and payments made are split between capital repayments and interest.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Impairment of non-financial assets

(i) Non-financial assets

The carrying amounts of the Group and Company's non-financial asset, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset, or its related cash-generating unit (CGU), exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU 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

G1. Significant accounting policies continued

pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The Company's corporate assets do not generate separate cash inflows.

If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. However an impairment loss recognised for goodwill cannot be reversed.

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

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

(l) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

The Company operates a defined benefit pension scheme for all employees. The assets of the scheme are held separately from those of the Company. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. To calculate the present value of economic benefit, consideration is given to any applicable minimum funding requirements. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Company determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring, in line with the policy on provisions – see (m). If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(iv) Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash

G1. Significant accounting policies continued

bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(m) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(n) Revenue recognition

Revenue is recognised when the risks and rewards of ownership are transferred to the customer, recovery of consideration is probable and the amount of revenue can be reliably measured. Revenue is not recognised until the service has been provided to the customer and is shown net of value added tax. Where services have been provided, but for which no invoice has been raised at the year end, an estimate of the value is included in revenue. For measured customers, this includes an estimate of the value of water and used water services supplied to customers between the date of the last meter reading and the year end. For unmeasured customers billed in advance, income is deferred and released to the income statement throughout the year.

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

(o) Government grants

New government grants and legacy grants to Water Service (pre 1 April 2007) were credited to 'deferred income' within liabilities at fair value and are released to profit or loss evenly over the expected useful life of the relevant asset, in accordance with the provisions of the Companies Act 2006. The Company receives government assistance, in the form of a customer subsidy, provided by DfI primarily in relation to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The customer subsidy is presented in revenue in the SOCI (see Note C1). A capital subsidy is received from DfI in relation to requisitioning of water and sewerage infrastructure for older properties. Similarly to all capital contributions from customers, and in accordance with IFRIC 18, this is credited directly to revenue within the SOCI (see Note G4 - Related parties).

(p) Lease payments

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

(i) Leased assets

Assets held by the Company under leases which transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the SOFP.

(ii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

(q) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise: interest expense on borrowings and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the

G1. Significant accounting policies continued

acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(r) Income tax

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax for the current and prior years is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current and prior years exceeds the amount payable, the excess is recognised as an asset. The benefits relating to a tax loss that can be carried back to recover current tax of a previous year are held as an asset.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

For investment property that is measured at depreciated cost, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity in which case the current or deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

G1. Significant accounting policies continued

(s) Foreign currency transactions

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

(t) 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 Group and Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note B4 – financial instruments.

(u) Application of new and revised International Financial Reporting Standards (IFRSs)

At the date of authorisation of these consolidated financial statements, the following standards and amendments have been adopted for the first time, none of which had impact on the consolidated or company's financial statements:

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS 2 Classification and measurement of share based payment transactions
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- Amendments to IAS 40: Transfers of Investment Properties
- IFRS 9 Financial Instruments

The accounting policies set out above have, unless otherwise stated, been applied consistently in the consolidated and company financial statements to all periods presented. The following accounting policies have been adopted for the first time and had a material impact on the Group and Company financial statements:

- IFRS 15 Revenue from contracts with customers including amendments to IFRS 15: Effective date of IFRS 15
- Clarification to IFRS 15 Revenue from Contracts with Customers

The impact of these standards is set out in Note 1 (e) and C6.

G1. Significant accounting policies continued

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2019 and have not been applied in preparing these financial statements. The standards and interpretations not adopted are outlined below:

	Effective Date – periods beginning on or after*
• IFRS 16: Leases	1 January 2019
• IFRIC 23 Uncertainty over Insurance Tax Treatments	1 January 2019
• Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
• Amendments to IAS 28 Long term interests in Associates and Joint Ventures	1 January 2019
• Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
• Amendments to IAS 19 Plan Amendment, Curtailment or Settlement	1 January 2019
• Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
• IFRS 17 Insurance Contracts	1 January 2021
• Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an optional Investor and its Associate or Joint Venture	Available for adoption/effective date deferred indefinitely

With the exception of IFRS 16, the directors do not expect that the adoption of the standards and interpretations listed above will have material impact on the Group and Company financial statements.

IFRS 16 will be effective for the Group and Company starting 1 April 2019. The standard permits a choice of two possible transition methods for the initial application of the requirements of the new standard: (1) retrospective application with restatement, or (2) retrospective application with no restatement with cumulative effect of initially applying the standard recognised on the date of initial application, being 1 April 2019 for the Group and Company (the "cumulative catch-up" approach). The Group and Company will adopt IFRS 16 for the first time in the year ending 31 March 2020 and will adopt the modified retrospective approach with the cumulative effect of initially applying the standard reflected as an adjustment to the opening balance of retained earnings as of 1 April 2019, with no restatement of comparative information.

The Group and Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 April 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Accounting for leases

IFRS 16 will change lease accounting mainly for lessees, and will replace the existing standard IAS 17. An asset for the right to use the leased item and a liability for future lease payments will be recognised for all leases, subject to limited exemptions for short term leases and low-value lease assets. The costs of leases will be recognised in profit or loss split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the existing accounting for finance lease, but substantively different to the existing accounting treatment for operating leases under which no lease asset or lease liability is recognised and rentals payable.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

G2. Financial risk management

Overview

This note presents information about the Group and Company's exposure to financial risks. These risks are managed within the risk management framework of the Group and Company as described below.

Further quantitative disclosures are included throughout these financial statements.

Credit risk

Credit risk is the risk that the Group and Company is exposed to loss if a customer or counterparty to a financial instrument fails to meet its financial obligations, and arises principally from the Group and Company's receivables from customers and banking relationships for deposits and interest rate swaps.

Trade and other receivables

NI Water has a statutory obligation to provide water and sewerage services to customers within its region. Approximately 72% of the Group and Company's revenue is in the form of a customer subsidy provided by DfI. This primarily relates to the deferment of the introduction of domestic charges that were planned for 1 April 2007. Excluding the subsidy from DfI, there is no concentration of credit risk with respect to trade receivables.

The credit risk in relation to the remaining 28% is mitigated by the application of credit control policies and procedures determined by the Group and Company and applied by a third party collection agent. Regular reviews of receivables are carried out together with prompt follow-up of unpaid invoices. Depending upon the customers' circumstances, repayments plans can be offered up to a period of 12 months. Further information on aging of receivables and bad debt provision is set out in Note B4.

Banking relationships: Investment Deposits and Interest Rate Swaps

The Group and Company may be exposed to credit-related loss in the event of non-performance by bank counterparties. In accordance with Shareholder Governance Arrangements banking services are primarily transacted through the NICS contract. As approved by DfI, and by DoF, other banking relationships have been used to manage counterparty risks which arise from deposits of funds available for short term investment and the use of Swaps to fix interest rates on borrowings in Dalriada Water Limited. The interest rate swaps are in place in Dalriada Water Limited for the period between 2006 and 2030 for notional principal amounts which equate to the portion of expected bank debt which is at variable interest rates.

Financial counterparty risks are managed by employing credit limits and continuous monitoring procedures. Deposits in the Company are only placed with banks other than the main relationship bank (MRB) if the counterparty holds an investment grade credit rating as issued by the main credit rating agencies of Standard & Poors, Moody's or Fitch. The maximum exposure with any bank other than the MRB is limited to £30m and no more than 50% of total cash balances may be held with any bank other than the MRB. The MRB may hold up to 100% of cash balances. In Dalriada Water Limited, in accordance with the contract, the "Account Bank" must meet certain credit ratings as issued by Standard & Poor's or Moody's. This is reviewed annually and approved by the funders.

Liquidity Risk

Liquidity risk is the risk that the Group and Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group and Company's approach to managing liquidity is to ensure, as far as possible, that sufficient liquidity exists to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group and Company's reputation.

The Treasury Function employs a continuous forecasting and monitoring process to manage cash, funding and liquidity risks.

The Group and Company is financed through a combination of retained earnings, Capital Loan Note Instruments provided by DfI and long term bank borrowings in Dalriada Water Limited.

Funds available for deposit based on forecasted liquidity requirements and in accordance with the Shareholder governance arrangements and Group and Company Treasury policies are invested by the Treasury Function in short term bank deposits. Dalriada Water Limited is restricted contractually to no longer than six monthly bank deposits to satisfy the scheduled calculation dates (30 September and 31 March) and with approved banks at certain credit rating levels.

The Capital Loan Note provided by DfI provides the Company with the ability to draw funds until 31 March 2021. The Company also maintains a £20m working capital facility provided by DfI available for the period to 31 March 2021. Borrowings on the facility are repayable on demand. This facility was not utilised at 31 March 2019.

In Dalriada Water Limited liquidity risk is principally managed through the use of long term borrowings with an amortisation profile that matches the expected availability of funds from the company's operating

G2. Financial risk management continued

reserves. Additionally, in accordance with contractual requirements Dalriada Limited maintains reserve bank accounts to provide short term liquidity against future debt service and capital maintenance expenditure requirements.

The Group and Company's net current liabilities can be met using the existing loan facilities (see Note B1). The Group and Company recognises that to maintain liquidity new borrowings facilities will be required for the period post 31 March 2021 and discussions have been opened with DfI. The Company also recognises the commitment for repayment of the 2027 Capital Loan Note on 31 March 2027. This also forms part of the discussions with DfI.

Further investigation in respect of liquidity risk is set out in Note B4.

Market risk

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

Foreign Exchange Risk

The Group and Company are not generally exposed to significant foreign exchange transactions with the majority of transactions, assets and liabilities being in the domestic currency.

The Company is engaged in two EU Interreg applications denominated in Euros which may expose it to foreign exchange risk. Grant receipts in Euros are exchanged to the domestic currency as close to the day of receipt as possible. Grant receipts for partners in the EU Interreg grants are transacted in Euro.

Interest Rate Risk

Investment Deposits

Interest rates on fixed term deposits are fixed for the period of investment. The average period of deposit is less than one month. The Group and Company also maintains instant access investment accounts on which interest is earned at rates based on the Bank of England Base rate.

Borrowings

Borrowings by NI Water Limited on capital loan note borrowings are at fixed rates agreed with DfI.

Borrowings by Dalriada Water Limited are at fixed rates either agreed directly with the lender EIB or through the use of interest rate swaps agreed at the start of the loan. The use of swaps only applies to the secured bank loan with Royal Bank of Canada.

The Group and Company has a committed borrowing facility available but unused at the year end on which interest is charged at floating rates based on LIBOR plus a margin as set out above. Interest is payable at a floating rate of the London Interbank Offered Rate (LIBOR) + 0.35%.

Capital management

The Company's capital consists of 500 million £1 ordinary shares, a statutory distributable reserve and a retained earnings reserve. A report on capital is prepared for the Board on an annual basis to ensure adequate cover exists for the payment of the Company's dividend.

Other risks

Further details on risks are contained on pages 53 to 61, 120 and 127.

G3. Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit pension scheme

The Company operates a defined benefit pension scheme, the Northern Ireland Water Limited Pension Scheme (NIWLPS), which is open to all employees. Members had the option of transferring their pensionable service from the Principal Civil Service Pension Scheme (Northern Ireland) (PCSPS (NI)) and a bulk transfer was paid in respect of liabilities transferred in August 2010. The Scheme has a number of different benefit structures applying to different categories of members. All but one of these are closed to new entrants. For all members employee contributions are being gradually increased, from an average level of a little over 2% of pensionable pay at present, and are expected to average about 4.5% of pensionable pay from 2016/17 onwards. The 2016/17 pension costs include a past service net credit of approximately £1.2m arising because of changes to the Scheme computation factors and late retirement uplifts which took effect from 1 April 2015.

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 broadly steady over time (subject to changes in market conditions). Accrued liabilities are based on calculations carried out by a qualified independent actuary. A full calculation of the liabilities was carried out at the date of the Scheme's latest actuarial valuation (31 March 2014) and has been updated to 31 March 2017 for IAS 19 purposes on an approximate basis.

Assumed life expectancies on retirement at age 60

	31 March 2019				31 March 2018			
	Non-industrial		**Industrial**		Non-industrial		Industrial	
	Male	**Female**	**Male**	**Female**	Male	Female	Male	Female
Retiring today (member aged 60)	**27.1**	**29.1**	**25.4**	**27.4**	27.0	29.0	25.3	27.3
Retiring in 20 years (member age 40)	**29.1**	**31.1**	**27.3**	**29.3**	29.0	31.0	27.2	29.2

The weighted-average target asset allocations were as follows:

	Total scheme assets at 31 March 2019 £000	Total scheme assets at 31 March 2018 £000
Asset category		
a. Equity instruments	**27.5%**	27.5%
b. Debt instruments:		
(i) Corporate bonds	**7.5%**	7.5%
(ii) Gilts	**7.5%**	25.0%
c. Property	**15.0%**	-
d. Other	**42.5%**	40.0%
Total	**100.0%**	100.0%

Fair value of plan assets

	Total scheme assets at 31 March 2019 £000	Total scheme assets at 31 March 2018 £000
a. Cash	**772**	3,445
b. Equities	**66,835**	63,921
c. Debt instruments:		
(i) Corporate bonds	**19,536**	13,152
(ii) Gilts	**62,690**	62,950
d. Property	**26,384**	24,705
e. Other	**62,060**	65,230
Total market value of assets	**238,277**	233,403

G3. Employee benefits continued

The Scheme's overall allocation to investment in equities is approximately 8.3% UK and 19.7% in overseas equities. The investments shown as 'Other' includes Diversified Growth Fund and Secured Finance Fund.

These investments are intended to reduce the reliance on equity markets, diversify the sources of risk to which the fund is exposed and provide exposure to a wide variety of equity, bond, currency, commodity and other alternatives markets.

Defined benefit obligation by participant status

	Total at 31 March 2019 £000	Total at 31 March 2018 £000
Actives	**176,867**	173,526
Vested deferreds	**13,849**	7,393
Retirees	**83,193**	75,273
Total defined benefit obligation	**273,909**	256,192

Change in the fair value of plan assets

	Total year to 31 March 2019 £000	Total year to 31 March 2018 £000
Fair value of plan assets at end of prior year	**233,403**	239,694
Movement in year:		
Interest income	**6,120**	6,000
Contributions by plan participants	**1,685**	1,722
Contributions by employer	**11,895**	11,181
Actuarial gain/(loss)	**3,232**	1,880
Benefits paid	**(17,058)**	(26,074)
Administration expenses paid from plan assets	**(1,000)**	(1,000)
Insurance premiums for risk benefits	**-**	-
Total	**238,277**	233,403

Analysis of the present value of the defined benefit obligations

	Total year to 31 March 2019 £000	Total year to 31 March 2018 £000
At the beginning of the year	**256,192**	305,678
Movement in year:		
Current service cost	**11,900**	13,500
Interest expense	**6,580**	7,600
Past service costs	**37**	1,500
Remeasurements:		
a. Effect of changes in demographic assumptions	**-**	(22,382)
b. Effect of changes in financial assumptions	**14,573**	(10,113)
c. Effect of experience adjustments	**-**	(15,239)
Contributions by plan participants	**1,685**	1,722
Insurance premiums for risk benefits	**-**	-
Benefits paid	**(17,058)**	(26,074)
Total	**273,909**	256,192

G3. Employee benefits continued

Amounts recognised in the statement of financial position

	Total year to 31 March 2019 £000	Total year to 31 March 2018 £000
Defined benefit obligation	**(273,909)**	(256,192)
Fair value of plan assets	**238,277**	233,403
Deficit in the scheme – pension liability	**(35,632)**	(22,789)
Related deferred tax asset	**6,057**	3,875
Net pension liability	**(29,575)**	(18,914)

During the year, many of the global investment markets grew in value so overall investment returns on most major asset classes were positive. This has impacted on the investment returns achieved by the NIWLPS, which were a positive £9.4m (equivalent to a return of about 4%) (2018: positive £7.9m (equivalent to a return of about 3%)).

During 2018/19 the Scheme experienced a high number of individual transfers out of the Scheme for members who decided to withdraw their funds. This has impacted on benefits paid which totalled to £17,058k (2018: £26,074k), almost £14m of which was in respect of transfer value payments.

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 2018/19 %	Change in liability 2018/19 £000	Change in liability 2017/2018 %	Change in liability 2017/2018 £000
+ or - 0.25% in discount rate	**6.6**	**18,200**	6.4	16,500
+ or - 0.25% in rate of inflation	**6.2**	**17,000**	6.0	15,400
+ or - 0.25% in salary inflation	**0.8**	**2,300**	1.1	2,800
Increase in life expectancy of 1 year	**3.5**	**9,600**	3.2	8,300
Reduce long term improvements to 1.25%	**(1.5)**	**(4,100)**	(1.4)	(3,500)

Expected cash flows for the following year

	£000
Expected employer contributions	**10,994**
Expected total benefit payments:	
Year 1	**17,587**
Year 2	**18,131**
Year 3	**18,693**
Year 4	**19,272**
Year 5	**19,868**
Then for next 5 years (Total)	**108,960**

G4 Related parties

Parent and ultimate controlling party

The Company is a Government owned Company and 100% owned by its ultimate controlling party, the DfI. The results of the Company will not be within the annual financial statements prepared by the DfI, nor in the financial statements of any other entity. Inter-Company debtor and creditor balances with the DfI and other government bodies will be supplied to the DfI for the Whole of Government Accounts. The Company transacts with other Government Departments, Agencies, and NDPBs, in the normal course of business and in accordance with standard business terms.

Related party disclosures with DfI are as follows:

	At 31 March 2019 £000	At 31 March 2018 £000
Subsidy		
Revenue subsidy from DfI (credited to revenue)	**299,926**	290,437
Revenue relating to road drainage (credited to revenue)	**21,861**	21,047
Other receivables - subsidy (included in other receivables - Note C4)	**1,621**	1,755
Other sales to DfI (credited to revenue)	**2,529**	1,278
Trade receivables - other sales to DfI (included in trade receivables - Note C4)	**338**	246
Purchases		
Purchases from DfI (included in operating costs or capital expenditure)	**705**	411
Accruals - purchases from DfI (included in accruals - Note D2)	**379**	378
Loans and borrowings		
Loans from DfI during the year	**64,000**	69,000
Balance on loans from DfI at year end - Note B1	**1,146,560**	1,082,560
Loan interest to DfI - Note B2*	**49,789**	48,365
Loan interest owed to DfI at year end	**2,081**	1,438
Dividends		
Dividend to Shareholder - Note B3	**26,461**	24,524

* loan interest stated before capitalisation of £5,014k (2018: £5,361k) of interest.

No guarantees are given to or received from DfI in relation to the previous balances. There are no provisions for doubtful debts related to the amounts above and no expense recognised in the year in respect of bad and doubtful debts due from DfI.

Key management personnel's compensation

Details of the key management personnel's post-employment defined benefit plan and termination benefits are included in the Directors' remuneration report on pages 82 to 86. Key management personnel's compensation is disclosed in Note E1a.

Key management personnel's and Directors' transactions

The key personnel and Directors did not carry out any transactions with related parties of the Group.

G5 Subsequent events

There were no subsequent events that need to be brought to the attention of the users of the financial statements.

Independent Auditors' Report to the Members of Northern Ireland Water Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Northern Ireland Water Limited ('the Company') for the year ended 31 March 2019 which comprise the consolidated statement of financial position, company statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of cashflows, company statement of cashflows and related notes, including the summary of key accounting policies set out in Note 1 and the summary of significant accounting policies set out in Note G1. The financial reporting framework that has been applied in their preparation is UK Law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

In our opinion:

- the Group financial statements gives a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity

In our opinion, in all material respects, the expenditure (disbursed) and income (received) have been applied to the purposes intended by the Department for Infrastructure as set out in their direction to the Company of 18 November 2010 and the financial transactions conform to the authorities which govern them.

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 Group 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 ongoing concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Parent Company will continue in operation.

Independent Auditors' Report to the Members of Northern Ireland Water Limited continued

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 director's report, the corporate governance report, the directors' remuneration report, and the statement of directors' responsibilities. The financial statements and our auditor's thereon do not comprise part of the other information. 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 2006.

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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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 these respects.

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 87, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Group and Parent 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 they either intend to liquidate the Group and Parent 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

Independent Auditors' Report to the Members of Northern Ireland Water Limited continued

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 - Senior Statutory Auditor
for and on behalf of
KPMG Statutory Auditor
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24 June 2019

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network access charge. Call charges for mobiles may vary.

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Delivering what matters

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