Northern Ireland Water Alpha Limited

Annual report and financial statements
Registered number NI050159
Year ended 31 March 2018

Contents

Directors and advisers

Directors

R Larkin
S Venning

Company secretary

M Ellesmere (appointed 20 November 2017)

Independent auditors

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

Registered office

9 Dunore Road
Aldergrove
Crumlin
Co. Antrim
BT29 4DZ

Bankers

Natwest
8 Park Row
Leeds
LS1 5HD

Strategic report

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

Review of business and future developments

Principal activities and review of business

On 30 May 2006 Northern Ireland Water Alpha Limited, formerly Kelda Water Services (Alpha) Limited, ('the Company') entered into a contract with Dalriada Water Limited to design, upgrade, construct, operate and maintain four clean water treatment works in Northern Ireland. These services are provided to Dalriada Water Limited which in turn entered into a Public Private Partnership (PPP) concession agreement with the Northern Ireland Water Service, an executive agency of the Department for Regional Development, to deliver Project Alpha – a project to design, build and finance four clean water treatment works around Lough Neagh and to operate and maintain these works over a 25 year period. The Authority has subsequently been incorporated as a Government Company (GoCo) and is now referred to as Northern Ireland Water Limited (NIW).

On 20 November 2017 NI Water Clear Limited purchased the company and Dalriada Water Limited. NI Water Clear Limited is wholly owned by NIW. The contract between Dalriada Water Limited and NIW continues to operate. At the same time the company changed its name to Northern Ireland Water Alpha Limited.

The company's principal source of income is from operating the clean water treatment works together with carrying out all of the routine and major life cycle maintenance for the remaining life of the concession. Performance deductions are applied for any deviation from the required water quality and quantity requirements.

Northern Ireland Water Alpha Limited provides, on behalf of Dalriada Water Limited, the required quantity of water to NIW at each site. In return for doing so Dalriada Water Limited earns a Unitary Charge from NIW and pays a monthly fee to Northern Ireland Water Alpha Limited for their services in operating the water treatment works and providing water to the required quantity and quality standards.

Under the terms of its contract with NIW, Dalriada Water Limited incurs performance deductions for any deviation from the required contractual water quality standards. These standards are set to significantly higher standards than the normal regulatory limits. In accordance with its contractual arrangements Dalriada Water Limited reduces the monthly fee paid to Northern Ireland Water Alpha Limited to recoup any performance deductions that it incurs.

Financial performance and outlook

Operating performance: the loss for the financial year amounts to £518,000 (2017: £171,000).

The increase in loss is as a result of increased cost pressures and costs of transition in the year.

2017/18 saw the company deliver a satisfactory level of operational performance overall, with the value of deductions being much lower than last year at 1.38% (2.92% in 2016/17). This has been partly due to the introduction of a controlled compliance initiative targeting the reduction in both water quality and dispatch failures. This will continue to be a focus throughout 2018/19.

Key performance indicators

Energy efficiency is a key focus for NIW, who are responsible under the contract for electricity costs and in 2017/18 Northern Ireland Water Alpha Limited maintained energy consumption within the energy consumption targets set under the contract.

A key focus was on health and safety and it is pleasing that were no reportable Health and Safety incidents during the year.

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

At the year end, the company was in a net liabilities position of £3,010,000, (2017: £2,492,000)). The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of a parent company, NIW Limited. The directors have received confirmation that NIW Limited intend to support the company for at least one year after these financial statements are signed.

Strategic report *(continued)*

Principal risks and uncertainties

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

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

At present there are no immediate risks considered likely to have a significant impact on the short or long term value of the company.

Financial risk management

Credit and cash flow risks to the company arise from its client, Dalriada Water Limited, however its ultimate customer and new ultimate parent undertaking is NIW. The credit and cash flow risks are not considered significant as the ultimate customer is a 100% government owned company.

From service commencement, the majority of the operating revenue is derived from an index linked fixed unitary charge with the remainder based on the volumes of water delivered to the client at an indexed price.

Contractual relationships

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

Health, safety and environment

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

Future developments

A continued focus on health and safety performance and maximisation of income through optimisation of performance deductions will remain a key driver for the business as it moves into 2018/19. Also, given that one of the most significant costs to the company is water treatment chemicals, the efficient procurement and use of these chemicals will remain a focus.

On behalf of the board

S Venning
Director

24 July 2018

Directors' Report

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

Results and dividends

The loss for the financial year amounts to £518,000 (2017: £171,000).

The directors are unable to recommend the payment of a dividend (2017: £nil).

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the parent company, Northern Ireland Water. The directors have received confirmation that Northern Ireland Water intend to support the company for at least one year after these financial statements are signed.

Events since the end of the year

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

Directors

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

P J Doherty (resigned 14 August 2017)
A L Roach (resigned 20 November 2017)
C S Haysom (appointed 14 August 2017, resigned 20 November 2017)
R Larkin (appointed 20 November 2017)
S Venning (appointed 20 November 2017)

Political donations and expenditure

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

Directors' statement as to disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Directors' indemnities

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

Independent auditors

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

Directors' Report

Statement of directors' responsibilities in respect of the directors' report and the financial statements
The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of its profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

On behalf of the board

M.E.Ellesmere

M Ellesmere
Company Secretary

24 July 2018

Independent auditor's report to the members of Northern Ireland Water Alpha Limited

1 Report on the audit of the financial statements

Opinion

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

In our opinion, the accompanying financial statements:

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

Basis for opinion

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

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

We have nothing to report on going concern

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

Other information

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

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

Based solely on our work on the other information;

- we have not identified material misstatements in the directors' report or the strategic report;
- in our opinion, the information given in the directors' report and the strategic report is consistent with the financial statements;
- in our opinion, the directors' report and the strategic report have been prepared in accordance with the Companies Act 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in regard to these matters.

Independent auditor's report to the members of Northern Ireland Water Alpha Limited *(continued)*

2 Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Our report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

24 July 2018

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

Profit and Loss Account and Other Comprehensive Income

for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Turnover	*2*	**7,945**	7,876
Operating costs		**(8,544)**	(7,686)
Operating (loss)/profit	*3*	**(599)**	190
Interest payable and similar expenses	*6*	**(21)**	(17)
(Loss)/profit before taxation		**(620)**	173
Tax on (loss)/profit	*7*	**102**	(2)
(Loss)/profit for the financial year		**(518)**	171

There are no other items of comprehensive income or expense in the current or prior year, therefore no separate statement of comprehensive income has been presented.

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

The notes on pages 11 to 23 form part of these financial statements.

Balance Sheet
as at 31 March 2018

	Note	**2018** **£000**	2017 £000
Fixed assets			
Tangible assets	*8*	**477**	42
Current assets			
Debtors	*9*	**3,654**	2,040
Cash at bank and in hand		**603**	-
		4,257	2,040
Creditors: amounts falling due within one year	*10*	**(7,744)**	(4,574)
Net current liabilities		**(3,487)**	(2,534)
Total assets less current liabilities		**(3,010)**	(2,492)
Net liabilities		**(3,010)**	(2,492)
Capital and reserves			
Called up share capital	*13*	**-**	-
Profit and loss account		**(3,010)**	(2,492)
Total shareholders' deficit		**(3,010)**	(2,492)

The notes on pages 11 to 23 form part of these financial statements.

The financial statements were approved by the board of directors on 24 July 2018 and were signed on its behalf by:

R Larkin
Director

Company registered number: NI050159

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

	Called up Share capital £000	Profit and loss account £000	Total shareholder deficit £000
Balance at 1 April 2016	-	(2,663)	**(2,663)**
Total comprehensive income for the year			
Profit	-	171	**171**
Balance at 31 March 2017	-	(2,492)	**(2,492)**

	Called up Share capital £000	Profit and loss account £000	Total shareholder deficit £000
Balance at 1 April 2017	-	(2,492)	**(2,492)**
Total comprehensive income for the year			
Loss	-	(518)	**(518)**
Balance at 31 March 2018	-	(3,010)	**(3,010)**

The notes on pages 11 to 23 form part of these financial statements.

Notes to the financial statements

1 Accounting policies

Northern Ireland Water Alpha Limited (the "Company") is a private company limited by shares and incorporated and domiciled in the UK. The registered number is NI050159 and the registered address is Dunore Point Water Treatment Works, 9 Dunore Road, Aldergrove, Crumlin,Co Antrim BT29 4DZ.

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

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

In the transition to FRS101 the Company has applied IFRS1 whilst ensuring that its assets and liabilities are measured in compliance with FRS101. An explanation of how the transition to FRS 101 has affected financial position and financial performance is provided in note 15.

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

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

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.

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

No judgements made the directors, in the application of these accounting policies have significant effect on the financial statements.

Measurement convention

The financial statements are prepared on the historical cost and going concern basis.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Going concern

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

Classification of financial instruments issued by the Company

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

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

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

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

Non-derivative financial instruments

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

Trade and other debtors

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

Trade and other creditors

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

Interest-bearing borrowings classified as basic financial instruments

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

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

Motor vehicles	5 years
IT Equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

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

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

Non-financial assets

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

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

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

An impairment loss in respect of goodwill is not reversed

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

Provisions

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

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Group plans

The Company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer of the plan, which is Northern Ireland Water Limited. The Company recognises a cost equal to its contribution payable for the period as an expense.

Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probably that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Turnover

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

Expenses

Interest receivable and interest payable

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

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Taxation

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

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

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

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

2 Turnover

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

	2018	2017
	£000	£000
Rendering of services	**7,945**	7,876
Contract revenue	**-**	-
Total	**7,945**	7,876

All of the company's turnover and profits before taxation arise in the United Kingdom and are derived from its continuing principal activity of the operation and maintenance of four clean water treatment works around the Lough Neagh.

Notes to the financial statements *(continued)*

3 Expenses and auditor's remuneration

Included in (loss)/profit are the following:

Auditor's remuneration:

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

4 Staff numbers and costs

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

	Number of employees	
	2018	2017
Activity:		
Operational	**20**	20
Office and management	**10**	10
	30	30

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Wages and salaries	**1,296**	1,210
Social security costs	**145**	134
Contributions to defined contribution plans	**118**	104
	1,559	1,448

5 Directors' remuneration

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

All directors' emoluments have been included in the financial statements for Northern Ireland Water Limited.

Notes to the financial statements *(continued)*

6 Interest payable and similar expenses

	2018 **£000**	2017 £000
Interest payable to group undertakings on financial liabilities at amortised cost	**21**	17
Total other interest payable and similar expenses	**21**	17

7 Taxation

Total tax recognised in the profit and loss account

	2018 **£000**	2017 £000
UK Corporation tax		
Current tax on income for the year	**-**	-
Total current tax	**-**	-
(Decrease)/increase in deferred tax provision and reversal of temporary differences	**(101)**	2
(Decrease)/increase in deferred tax provision in respect of the prior year	**(1)**	-
Total deferred tax	**(102)**	2
Total tax (credit)/ charge on (loss)/profit on ordinary activities	**(102)**	2

Notes to the financial statements *(continued)*

7 Taxation (continued)

Reconciliation of effective tax rate

	2018	2017
	£000	£000
(Loss)/profit for the financial year	**(518)**	171
Total tax (income)/expense included in profit or loss account	**(102)**	2
(Loss)/profit excluding taxation	**(620)**	173
Tax using the UK corporation tax rate of 19% (2017: 20%)	**(118)**	35
Income not taxable for tax purposes	**-**	(31)
Group relief received for no charge	**4**	4
Transfer pricing adjustments	**-**	(6)
Tax rate changes	**12**	-
Total tax (income)/expense	**(102)**	2

Factors affecting future tax charge

In the Finance (No 2) Act 2015 provision was made that the corporation tax rate applicable for the financial year beginning 1 April 2017 would be 19%, falling to 18% for the financial years beginning 1 April 2020 onwards. The Finance Act 2016 provided for a further reduction in the rate to 17% for the financial years beginning 1 April 2020 onwards.

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

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

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

- A restriction on the use of brought forward losses may affect Groups that were previously loss making that become profit making, and have profits over £5m. This measure may result in cash tax being payable before all of the trading losses brought forward have been utilised.
- The Corporate Interest Restriction legislation was introduced. The 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.

Notes to the financial statements *(continued)*

8 Tangible assets

	IT Equipment £000	Motor vehicles £000	Total £000
Cost			
Balance at 1 April 2017	-	94	94
Additions	421	32	453
Balance at 31 March 2018	421	126	547
Depreciation and impairment			
Balance at 1 April 2017	-	52	52
Depreciation charge for the year	-	18	18
Balance at 31 March 2018	-	70	70
Net book value			
At 31 March 2018	**421**	**56**	**477**
At 31 March 2017	-	42	42

9 Debtors

	2018 £000	2017 £000
Amounts owed by group undertakings	**3,277**	1,861
Deferred tax assets (see note 12)	**113**	11
Other taxes and social security	**36**	-
Prepayments and accrued income	**228**	168
	3,654	2,040
Due within one year	**3,654**	2,040

Amounts owed by group undertakings relate to intercompany trading balances and are unsecured, interest free and repayable on demand.

Notes to the financial statements *(continued)*

10 Creditors: amounts falling due within one year

	2018	2017
	£000	£000
Bank overdrafts (unsecured)	**-**	15
Trade creditors	**2,295**	948
Loan from group undertakings	**3,475**	1,695
Amounts owed to group undertakings	**1,678**	1,163
Other taxes and social security	**24**	163
Accruals and deferred income	**272**	590
	7,744	4,574

The loan from group undertakings is in sterling, unsecured and repayable on demand to Northern Ireland Water Clear Limited with interest payable at 3 month Libor plus 0.4% per annum. Interest and capital is repayable on maturity.

The amounts owed to group undertakings (which relate to intercompany trading balances) are unsecured, interest free and repayable on demand.

11 Interest-bearing loans and borrowings

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

Terms and debt repayment schedule

	Interest rate type	Nominal interest rate %	Year of maturity	Repayment profile	**2018**	2017
					£000	£000
Subordinated loan from Northern Ireland Water Clear Limited	0.4% above LIBOR	0.4% above LIBOR	Repayable on demand	Repayable on demand	**3,475**	1,695
					3,475	1,695

12 Deferred tax assets and liabilities

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

	Assets		**Liabilities**		**Net**	
	2018	2017	**2018**	2017	**2018**	2017
	£000	£000	**£000**	£000	**£000**	£000
Fixed assets	**(8)**	(8)	**-**	-	**(8)**	(8)
Employee Benefits	**(3)**	(3)	**-**	-	**(3)**	(3)
Tax value of losses carried forward	**(102)**	-	**-**	-	**(102)**	-
Tax (assets) / liabilities	**(113)**	(11)	**-**	-	**(113)**	(11)
Net tax (assets)					**(113)**	(11)

Notes to the financial statements *(continued)*

12 Deferred tax assets and liabilities *(continued)*

Movement in deferred tax during the year

	1 April 2017	Recognised in profit	Recognised in equity	Included in disposal group	Acquired in business combination	31 March 2018
	£000	£000	£000	£000	£000	£000
Tangible fixed assets	(8)	-	-	-	-	**(8)**
Employee benefits	(3)	-	-	-	-	**(3)**
Tax value of loss carry-forwards utilised	-	(102)	-	-	-	**(102)**
	(11)	(102)	-	-	-	**(113)**

Notes to the financial statements *(continued)*

13 Employee benefits

The company participates in the group multi-employer scheme, such that the company's pension scheme's assets and liabilities are included with those of the group of Northern Ireland Water Limited. The company is unable to identify its share of the underlying assets and liabilities of the Northern Ireland Water Limited Pension Scheme as the scheme's members are not unitised by company and therefore the company has not been allocated a share of the cost of the scheme. The company therefore accounts for pension costs on a contribution basis.

The disclosures below provide information about the group plan as a whole.

The fair value of the plan assets and the return on those assets were as follows:

	2018 Fair value £k	2017 Fair value £k
Cash and cash equivalents	**3,445**	-
Equity instruments	**63,921**	77,372
Debt instruments - index-linked government bonds	**62,950**	66,255
Debt instruments - corporate bonds	**13,152**	30,774
Real estate	**24,705**	22,756
Derivatives	**-**	-
Investment funds	**65,230**	42,537
Assets held by insurance company	**-**	-
Other	**-**	-
Total value of plan assets	**233,403**	239,694
Defined pension obligation	**(256,192)**	(305,678)
Net pension obligation	**(22,789)**	(65,984)

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2018	2017
Discount rate	**2.65%**	2.60%
Salary increase rate	**2.00% for the next 5 years, 3.00% thereafter**	2.10% for the next 3 years, 3.10% thereafter
Pensions-in-payment increase rate (RPI)	**3.05%**	3.10%
Price inflation rate (RPI)	**3.00%**	3.10%
Price inflation rate (CPI)	**2.00%**	2.10%

The total expense of the Company relating to these plans in the current year was £118,000 (2017: £104,000)

Notes to the financial statements *(continued)*

14 Capital and Reserves

	2018	2017
Allotted, called up and fully paid	**£000**	£000
2018: 50 ordinary A shares of £1 each	-	-
50 ordinary B shares of £1 each	-	-
2017: 100 ordinary shares of £1 each	-	-
Shares classified as shareholders' funds	-	-

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights. A and B shares rank pari passu.

15 Related parties

Identity of related parties with which the Company has transacted

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

16 Ultimate parent company and parent company of larger group

The Company's immediate parent undertaking is NI Water Clear Limited. The ultimate parent and controlling party is Northern Ireland Water Limited.

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

17 Explanation of transition to FRS101 from FRS102

As stated in Note 1, these are the company's first financial statements prepared in accordance with FRS101. The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 31 March 2018 and the comparative information presented in these financial statements for the year ended 31 March 2017. There were no adjustments on transition.