northern ireland water

Annual Report and Accounts
2015/16

INVESTING IN **HEALTH**, THE **ECONOMY** AND THE **ENVIRONMENT**

Northern Ireland Water Limited
Annual Report and Accounts
For the year ended 31 March 2016

Laid before the Northern Ireland Assembly under Article 276 of the Water and Sewerage Services (Northern Ireland) Order 2006 by the Department for Infrastructure
(formerly known as the Department for Regional Development)
on
12 September 2016

Contents

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.

Strategic report

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

Cookstown wastewater treatment works, Co. Tyrone. Image courtesy of Robin Massey, NI Water.

Fast read

Investing in our health, economy and the natural environment to create long term sustainable value for Northern Ireland

Delivered near record levels of water and wastewater compliance supporting some of the best bathing waters in Europe

Provided the best ever levels of service for our customers at a lower cost

Continuing to keep bills affordable for our customers

Current funding arrangement is less than optimum and remains below that required by the Utility Regulator

Aiming to deliver a customer experience which is on par with the leading water Companies in England and Wales by 2021

Welcome

It is with pleasure that I welcome you to Northern Ireland Water's Annual Report for 2015/16, our first year of reporting for our six year business plan to 2021 and my first full year as Chairman of the Company.

NI Water as a water utility is an integral partner with government and other stakeholders in health, wellbeing and job creation in Northern Ireland. Water is the primary resource upon which nearly all economic, social activity and ecosystem functions depend.

We provide clean safe drinking water and deliver leading environmental solutions for sewage disposal helping maintain Northern Ireland's coveted "green" credentials - our water quality and wastewater compliance remains at near record levels.

We invest in new treatment works and deliver infrastructure to maintain and expand capacity and in so doing enable development in many diverse sectors of our economy from agri-food production, to new house construction, to tourism development. During the year, we invested £140 million[1] in major capital schemes, including delivery of 117 km of water mains and substantially completed the Carland to Cookstown strategic water trunk main.

Our investment programme has enabled us to deliver record breaking levels of services to our customers while at the same time running our business for less. We have now more than halved the efficiency gap with our peers in England and Wales, and are working hard to reduce the remaining gap within the context of a much smaller utility than our peers.

These efficiencies have enabled us to keep bills affordable for our 80,000 non-domestic customers. Taking into account inflation, our non-domestic customers are paying 12% less, on average, for their water and sewerage services than they did four years ago.

Our underlying revenue, outside of adopted assets, was £380.8m (2014/15; £377.2m) an increase of 1% resulting from increased demand and new connections. Our revenue in the year is derived from two principal sources; commercial billing to non-domestic organisations in Northern Ireland of £69.3m and a subsidy from the Northern Ireland Government of £283.5m in place of a direct charge to households[2]. We generated an operating surplus after tax of £101.5m and we returned to the public purse £24.7m in the form of a dividend paid to the Department for Regional Development (now known as the Department for Infrastructure).

Our strategy remains focussed on putting our customers first and empowering our employees to deliver our strategic outcomes. Underpinning our strategy is a focus on achieving customer excellence by aiming to deliver a customer experience which is on par with the leading water Companies in England and Wales by 2021. This will be measured using appropriate standard UK water industry metrics.

Customers in Northern Ireland today and in the future deserve to have access to the same high levels of service, water quality and environmental standards as customers in England and Wales and Scotland.

The Board will continue to work with the Department for Infrastructure to explore ways to access further sources of funding and to consider how best to refinance current borrowings of almost £990m in support of this.

During the year there have been a number of changes to our Board. I took up my role as Chairman on 1 April 2015 and would like to record my appreciation for the work undertaken by the previous Chairman, Seán Hogan and previous Board members. I would like to thank the new members who joined the Board during the past year for their work to date.

I would also like to thank all our employees for their continued commitment to drive NI Water forward and to deliver for our customers every day.

I hope that this report provides an insight to how NI Water works with the natural water cycle to invest in our health, economy and the natural environment and create long term sustainable value for Northern Ireland.

Dr Leonard J. P. O'Hagan CBE
Chairman
28 June 2016

[1] Net of capital contributions.
[2] There is also £20.0m of road drainage income provided by DRD.

How we create value

NI Water's integrated business model creates **long term value** for our stakeholders and wider society.

To be a valued and trusted provider of one of Northern Ireland's most essential services; an organisation our customers and staff are proud of

Outputs

Drinking water
Treated wastewater
Skills and expertise
Innovation
Waste and emissions

Our outcomes

Customer service
Read more pg18

Drinking water
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Water supply
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Wastewater
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People
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Natural environment
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Climate change
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Value for money
Read more pg32

Our culture

Customer service excellence
Continuous improvement
Collaborative working
Taking ownership
Integrity

environment
Read more pg34

Business strategy

Our strategy to deliver our vision focuses on eight priority areas for the PC15 period (2015 to 2021). It should be noted that our priorities are constrained by the funding available under public expenditure.

Business performance

Protecting health, safeguarding the environment and promoting a strong regional economy - NI Water's performance in 2015/16 continues to support these aims. NI Water is at the heart of the communities we serve and I'm proud to say we've delivered another strong year of business performance in 2015/16, despite uncertainty over the funding for PC15.

Putting our customers first

Our customers are benefiting from record levels of service which is underpinned by our capital investment programme.

The **overall level of service** delivered to our customers is record breaking. We achieved an Overall Performance Assessment (OPA) score of 230 against a 2015/16 target of 218.

The OPA score is a composite score used by the Utility Regulator to assess NI Water's levels of service.

The investment in our asset base is delivering improved water and wastewater quality. Quality improvements are also being driven by collaboration with our stakeholders. For example, over 2015/16 we worked with Ulster Farmers Union, the NIEA and the DARDNI[3] to increase awareness of the impact that pesticides have on water quality.

Our levels of **water and wastewater** compliance in 2015 are at some of the highest ever levels at 99.83% and 98.55% respectively.

Pages 11, 20 and 24
Read more about improving drinking water and wastewater quality.

We plan to invest around £120m in water mains improvement by 2020/21. This investment includes a £11m upgrade for Belfast and Carrickfergus which commenced in 2015/16. The investment in our water mains is contributing towards a reduction in levels of leakage as seen in 2015/16.

In 2015/16 we continued to reduce leakage by a further **4 million litres per day** (Ml/d). Leakage at 162 Ml/d was better than our target of 163 Ml/d.

Pages 10 and 23
Read more about reducing leakage.

In 2015/16 we met most of our supply interruption targets except for interruptions lasting more than 6 hours. This was due to adverse weather conditions and limited options to provide supplies from other zones affecting a small number of repairs.

Page 22
Read more about investment in our water supply infrastructure.

Our investment programme is also targeted at alleviating the problems faced by areas which have experienced flooding events. The removal of properties at risk of sewer flooding remains a key area of focus and we achieved all our sewer flooding targets in 2015/16. This performance was supported by proactive sewer de-silting and customer education campaigns such as the 'Dirty Dozen'.

We achieved all our **sewer flooding** targets for 2015/16. This included the removal of 7 properties from the 'at risk register' against a target of 6 properties.

Pages 10 and 24
Read more about sewer flooding.

[3] Department of Agriculture, Environment and Rural Affairs with effect from 9 May 2016.

Business performance

Doing more for less

Over 2015/16 we have improved our business, attaining **record levels of service** to our customers, while **reducing our running costs**. We have made significant, sustainable savings to our cost base, which has allowed us to reduce water and sewerage charges.

We **reduced** our day to day **running costs** by 4.2% (£5.4m*) in 2015/16 and by 31% (£65m**) since 2009/10.

* Based on an approach used by the Utility Regulator. Details of this approach are contained within the Utility Regulator's Cost and Performance Report.

** Based on a reduction in operational costs between 2009/10 (baseline year) and 2015/16 using 2015/16 prices.

Pages 32 to 33
Read more about reducing our running costs.

Working with the natural environment

As one of the largest landowners in Northern Ireland, our activities have a significant impact on the environment. We received a prestigious international "Green Apple" environmental Award in recognition of our work to construct an Integrated Constructed Wetland (ICW) for wastewater treatment in Stoneyford, near Lisburn, Co Antrim. The Stoneyford site will be a flagship project for NI Water to produce an industry-leading example of how wastewater treatment can be integrated into and complement the local ecosystem. The ICW method also has a proven track record with cost savings, low energy and low maintenance compared with traditional solutions.

Page 28
Read more about piloting environmentally sustainable solutions.

We remain committed to **reducing our pollution incidents**. During 2015/16, we appointed 17 employees as environmental champions to educate customers on better flushing habits and how to save water. Our focus on reducing pollution is supporting the creation of both environmental and economic value - Northern Ireland continues to have some of the best **bathing water quality** in Europe, attracting thousands of visitors each year.

Pollution incidents continue to be at near record low levels, with 21 incidents recorded against a target of not more than 28 incidents.

Page 25
Read more about reducing pollution incidents.

We are also targeting energy efficiencies and the use of renewable sources of energy to mitigate our impact and **reduce the production of greenhouse gases**.

Page 30
Read more about adapting to deal with the effects of climate change.

Business performance

Achieving zero harm

We continue to focus on making NI Water a safe place to work by working with our staff, trade unions and contractors to reduce accidents in the work place and achieve our **zero accident ambition**.

We have been commended by **RoSPA** for achievement in occupational **health and safety performance.**

RoSPA is the Royal Society for the Prevention of Accidents.

Pages 26 to 27
Read more about health and safety.

Our colleagues

It is the wider NI Water team that has consistently delivered improving levels of service for our customers. I would like to pay tribute to their commitment and dedication. We have invested in our systems and equipment to support our colleagues in providing improved service to customers and we will continue to do so.

Looking forward

NI Water is delivering improved services at lower costs for its customers and we have developed a strong and ambitious business plan for PC15, which underpins our desire to deliver an improved service for our customers, at a sustainably lower cost via a highly engaged workforce. We're proud of what we do, we know our services are essential and we are committed to working with the NI Executive to secure their support in funding our plans as approved by the Utility Regulator.

Outside of our PC15 Business Plan, NI Water welcomes the Department for Infrastructure's work in leading the Living With Water Programme. The programme seeks to bring about necessary improvements in drainage networks.

I look forward to reporting continued improvements in the levels of service to our customers in 2016/17 and further demonstrate our commitment to delivering long term sustainable value.

Sara Venning
Chief Executive
28 June 2016

Key performance indicators

Key performance indicators (KPIs) are used to measure delivery of our business strategy.

KPI	Unit of measurement	Strategic priority	Target 2015/16	Actual 2015/16	Pass/Fail	Target 2016/17
Overall Performance Assessment (OPA) Score:						
Score based on 11 measures*	Number		218	**230**	Pass	221
Supply interruptions:						
Properties in excess of 6 hours	% of properties		0.87	**1.04**	Fail	0.85
Properties in excess of 12 hours	% of properties		0.18	**0.10**	Pass	0.17
Properties in excess of 24 hours	% of properties		0.01	**0.00**	Pass	0.01
Customer contacts:						
Telephone contacts received	Number		244,868	**210,487**	Pass	232,625
Call handling satisfaction score	Score out of 5		4.65	**4.59**	Fail	4.65
Customer complaints:						
Written complaints	Number		2,550	**2,269**	Pass	2,450
Response to complaints	%		99.50	**99.87**	Pass	99.50
CCNI Stage 2 complaints	Number		41	**34**	Pass	39
Leakage:						
Total leakage	Million litres per day		163	**162**	Pass	161
Sewer flooding						
Properties removed from at risk register	Number of properties		6	**7**	Pass	8
Overload of a sewer	Number of properties		6	**2**	Pass	6
Other causes	Number of properties		59	**38**	Pass	56

Key

Target passed

Target failed

*http://www.uregni.gov.uk/uploads/publications/UR_PC15_FD_Annex_E_-_Overall_Performance_Assessment_0200.pdf

Key performance indicators

KPI	Unit of measurement	Strategic priority	Target 2015/16	Actual 2015/16	Pass/Fail	Target 2016/17
Low pressure:						
Properties removed from low pressure register	Number		92	**171**	Pass	108
Health and safety:						
Number of incidents resulting in >3 lost days, at or in connection with work activity	Number		7	**7**	Pass	7
Water quality:**						
Overall compliance with drinking water regulations	%		99.79	**99.83**	Pass	99.79
Water quality events:**						
Number of water quality events (significant or above)	Number		36	**32**	Pass	36
Wastewater quality:**						
Population served by compliant wastewater treatment works	%		98.08	**98.55**	Pass	98.26
Pollution incidents:**						
High/medium severity incidents attributed to NI Water	Number		28	**21**	Pass	27
Capital investment programme outputs*:**						
Completion of nominated outputs	Number		133	**214**	Fail	136
Water mains and sewerage activity	Km		104	**134**	Pass	156
Capital investment programme expenditure:						
Capital investment programme expenditure	£m	£	135.3	**135.5**	Pass	142.6
Operating cost efficiency gap**:**			**Actual 2014/15**	**Actual 2013/14**	**Actual 2012/13**	**Pass/Fail**
Gap to leading edge (frontier) water and wastewater Companies in England and Wales	%	£	**13**	17	22	Pass

**These KPIs are measured on a calendar year basis.
*** While more outputs were delivered in total during 2015/16, some outputs for certain categories were not delivered. We plan to deliver these outputs during PC15 period.
****Measured 1 year in arrears.

Principal risks and opportunities

The Company is exposed to a number of risks and opportunities which could have a material impact on its business and its ability to create value over the short, medium and long term. The specific steps being taken to mitigate or manage principal risks and to create value from the principal opportunities in relation to the Company's strategic priorities are listed below.

Page 48 to 50
Read more about opportunity risk management.

Principal risks and uncertainties

1. Medium term funding

NI Water has advised both the Executive and DfI of the implications of Northern Ireland's public health utility not having access to a secure medium term funding settlement.

Background to the risk

The current arrangements for the governance of NI Water as both a regulated Government Company and a Non-Departmental Public Body bring with it certain challenges, such as 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 PC15 Final Determination output targets to reflect a shortfall in public sector funding in 2015/16 and 2016/17. NI Water is an asset intensive business and long term planning is essential to improve services for customers today while investing to safeguard services for future customers. The uncertainty over medium term investment planning adds complexity and inefficiency to capital investment delivery and makes it increasingly difficult for us to maintain momentum to complete our programmes of work.

Managing the risk

The Company is continuing to work closely with DfI and the Utility Regulator to make the case for certainty of funding and a medium term financial settlement to underpin the six-year PC15 Final Determination. 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, delivered and communicated to the public in a clear and responsive manner.

2. Failure of our assets

The failure of our assets which could inhibit our ability to carry out critical operations could have a significant impact on customers, the environment and our financial position.

Background to the risk

NI Water inherited an aged asset base and much investment is required to bring it to a compatible level by UK and European standards. The regulated business requires significant capital investment and a maintenance programme for water and wastewater networks and treatment facilities in order to comply with regulatory and environmental performance standards. There is a risk that the Company may suffer a major failure in its assets which could arise from an inability to deliver the capital investment programme or to maintain its systems. This could cause a significant impact to our customers due to deterioration in the quality of drinking water, interruptions to supply and management of wastewater services, including the impact to the environment.

Managing the risk

NI Water continues to work with the Utility Regulator and DfI on short and long term funding arrangements to make further improvement to its assets and take opportunities to manage exposure to risks associated with climate change. The Company's Major Incident Plan is continually being

Principal risks and opportunities

updated to reflect best practice and key learning points from its annual testing and exercises and previous emergency and major events. The Company will endeavour to maximise the lessons learned from a review by the Utility Regulator and our internal review. The Company's Business Continuity Management is integrated with the Major Incident Plan and provides the necessary support in a major event. Specific Business Continuity Plans reflect the key business risks and are activated over the year in response to specific business needs. An Information Technology Disaster Recovery Plan is in place to reduce the impact of adverse events and to manage recovery to 'business as usual'. A facilities management plan is in place to provide alternative work areas as and when necessary.

3. Cost 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 as set out in PC15.

Background to the risk

The Company is subject to certain risks which are largely outside its control, such as energy costs; adverse weather resulting in severe flood related costs and damages to fixed assets; unlawful acts by third parties, including pollution, sabotage or other related acts; as well as a downturn in the economy which could result in a decrease in revenue. These factors may also result in physical damage or otherwise significantly affect corporate activities and, as a consequence, affect the results of operations and financial position. The level of efficiencies required will present challenges to NI Water in terms of how it delivers these savings whilst maintaining and delivering effective services to the public. Whilst we have broadly achieved our targets in 2015/16, the targets set by the Utility Regulator for 2016/17 to 2020/21 are not achievable without the required funding. In addition there is a risk that efficiency targets leave the organisation unable to re-invest for development of future capability.

Managing the risk

NI Water continues to work with the Utility Regulator and DfI on short and long term targets and efficiency savings, including the approval of strategic capital projects to reduce the risk of adverse impacts on customers. NI Water is in the process of delivering its 'Achieving Customer Excellence' programme which is critical to achieve the PC15 targets, deliver cost savings and providing the best possible service to our customers.

4. Data and changes in technology

The robustness and accuracy of data and the changes in technology requires effective management of information and communication to our customers in order to provide the quality of service that they have come to expect.

Background to the risk

There is a risk that errors or unintentional reporting of information could have an impact on customers and other stakeholders especially given the increase in customer interaction and operational information disseminated through NI Water's website and other communication channels. Whilst NI Water has developed an effective communication strategy and has been pro-active in communicating with customers, there is still a risk that such dialogue and engagement could, through release of erroneous data or information, create a negative impact on NI Water's reputation.

Managing the risk

NI Water is continually making improvements in its 'information governance' to manage the quality of information to support service delivery and policy making. This includes working with stakeholders to improve the accuracy and speed of information available for management and reporting.

Principal risks and opportunities

5. Governance model

Subject to the decision of the NI Executive, any future change to the governance model of NI Water and future financing arrangements will have significant implications for the Company and the delivery of its services.

Background to the risk

The current arrangements for the governance of NI Water as both a regulated Government Company and a Non-Departmental Public Body, brings with it certain challenges, such as the longer term capital funding constraints. 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.

Managing the risk

Consistent with risk 1, the Company is continuing to work closely with DfI and the Utility Regulator to ensure that the implications on the delivery of its services, are fully analysed, managed, delivered and communicated to the public in a clear and responsive manner.

6. Major emergency funding

Ready access to finance and budgetary cover is required in the event of a major emergency.

Background to the risk

The previously extended capital loan note facility and banking facilities expired on 31 March 2016.

Managing the risk

A new loan note facility for £600m, which is in addition to the funding which expired on 31 March 2016, has been put in place between DfI and NI Water for the five years to March 2021 to ensure sufficient funding is in place for the capital programme. In addition it has been agreed that the current working capital facility of £20m will be maintained to March 2021. The current capital loan note and its replacement make provision for their use to facilitate emergencies. It has also been agreed that the subsidy may be drawn down earlier than scheduled in the event of an emergency.

The Company is working with DfI to ensure that proper and effective arrangements are in place to facilitate the funding of major emergency events.

Principal opportunities

1. Belfast strategic drainage issues

Opportunity to contribute, along with other organisations, to the resolution of Belfast strategic drainage issues.

Background to the opportunity

The NI Executive agreed in July 2014 to set up an interdepartmental group to develop a Strategic Drainage Infrastructure Plan to support economic growth, protect the environment and address flood risk. The initiative has been designated as the Living With Water Programme and a Programme Board has been established and includes representatives of three Departments — Department for Infrastructure, which is responsible for water, rivers and roads; Department of Finance; and the Department of Agriculture, Environment and Rural Affairs which is responsible for the environment. NI Water actively participates in the Living with Water Programme together with the Strategic Investment Board and Belfast City Council. The work of the Programme Board will initially focus on greater Belfast due to the particularly urgent need for an agreed plan for that area.

Managing the opportunity

NI Water's participation in this Department led initiative brings with it the technical knowledge and experience that will positively contribute to this programme and help meet the future wastewater management needs due to increasing population and development. The realisation of the opportunity is subject to the necessary funding being made available.

Principal risks and opportunities

2. Asset resilience

Opportunity to improve resilience in our assets to deal with an increase in extreme weather events and exploiting sustainability, green compliance and energy efficiency.

Background to the opportunity

Risks relating to the funding required to maintain our existing aged assets and increasing demands for capital replacement programme are as stated in the 'Principal risks and uncertainties' above. This opportunity relates to the efficient management of capital expenditure and asset maintenance cost through partnership with stakeholders to improve customer experience and environmental improvements in a cost effective matter.

Managing the opportunity

NI Water's Climate Change Forum monitors the implementation of the 'Adaptation Strategy and Action Plan' and the 'Mitigation Strategy and Action Plan' and the 'PC15 Energy Efficiency Plan'. NI Water has recently submitted joint Project Grant Applications with Irish Water for the EU Programme for Cross-Border Cooperation 2014 to 2020 (INTERREG V) to seek part-funding for the improvement of the cross border water resource programme.

3. Innovation

Innovation in service delivery and business processes through enabling technology.

Background to the opportunity

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

Managing the opportunity

We have piloted an integrated approach to the control of our Service Reservoirs using Instrumentation Control and Telemetry. The success of the pilot has led to the development of a programme to roll this out to over 200 sites in the PC15 period. We have also built on our previous pilot of 'drone' technology to test its ability to find leaks on water pipelines in areas where accessibility is difficult.

4. Employee well-being

Opportunity to increase the overall well-being of employees whilst maintaining the high standards of health and safety.

Background to the opportunity

NI Water applies a zero-tolerance approach towards health and safety which is a permanent agenda item in the Board meetings. NI Water has also introduced and promotes a new 'Zero Harm' ambition for all of our colleagues, contractors, customers and our environment. In terms of opportunity management, NI Water has a number of schemes in place which are available to employees and we see these as being a positive step towards improving staff wellbeing.

Managing the opportunity

NI Water received a commendation from RoSPA in 2015/16 for its health and safety performance, which demonstrates the continuing commitment and achievements in the management of safety, health and wellbeing. NI Water also had an external review of strategic health and safety leadership and management undertaken in 2015/16, which covered NI Water's commitment to the safety of employees and contractors.
In addition NI Water's 'Cares Challenge' volunteering scheme, which operates in partnership with 'Business in the Community', has one of the highest levels of participation in Northern Ireland.

Outlook

We face a number of challenges and uncertainties in pursuing our business strategy which may impact our services and our performance in the future:

Outlook

Climate change

Our industry is vulnerable to the impacts of more frequent extreme weather events. In response, we continue to invest to be more resilient in changing climatic conditions and mitigate the impact of further changes in weather patterns by reducing our greenhouse gas emissions.

Our governance, funding and the regulatory environment

Our hybrid business delivery model is recognised as not being the most efficient for a provider of infrastructure investment. It is reasonable to expect that our governance and funding and the regulatory framework may evolve over the medium term.

Innovation

The adoption of new technology in recent years has assisted us in delivering better quality services in more efficient ways. With ever increasing challenges on sustainability, efficiency and cost, we will continue to look to science and technology to seek innovative and practical sustainable solutions to improve our services and minimise costs.

Demographics

Over the 10 year period from 2014 to 2024, Northern Ireland's population is projected to grow by 5.3 per cent (i.e. 98,200 people), reaching 1,938,700 people in 2024*. Shifts in the urban/rural split, periodic variances in economic activity and constantly changing business needs between water intensive industrial processes and the service sector, all impact on where, when and how much investment is needed to secure future water and wastewater services.

Legislation

It is anticipated that over the coming 25 years there will be new European, UK and Northern Ireland legislation aimed at improving drinking water and environmental standards and how we achieve them. We continually monitor the introduction of new legislation and seek necessary funding to enable compliance with the legislation.

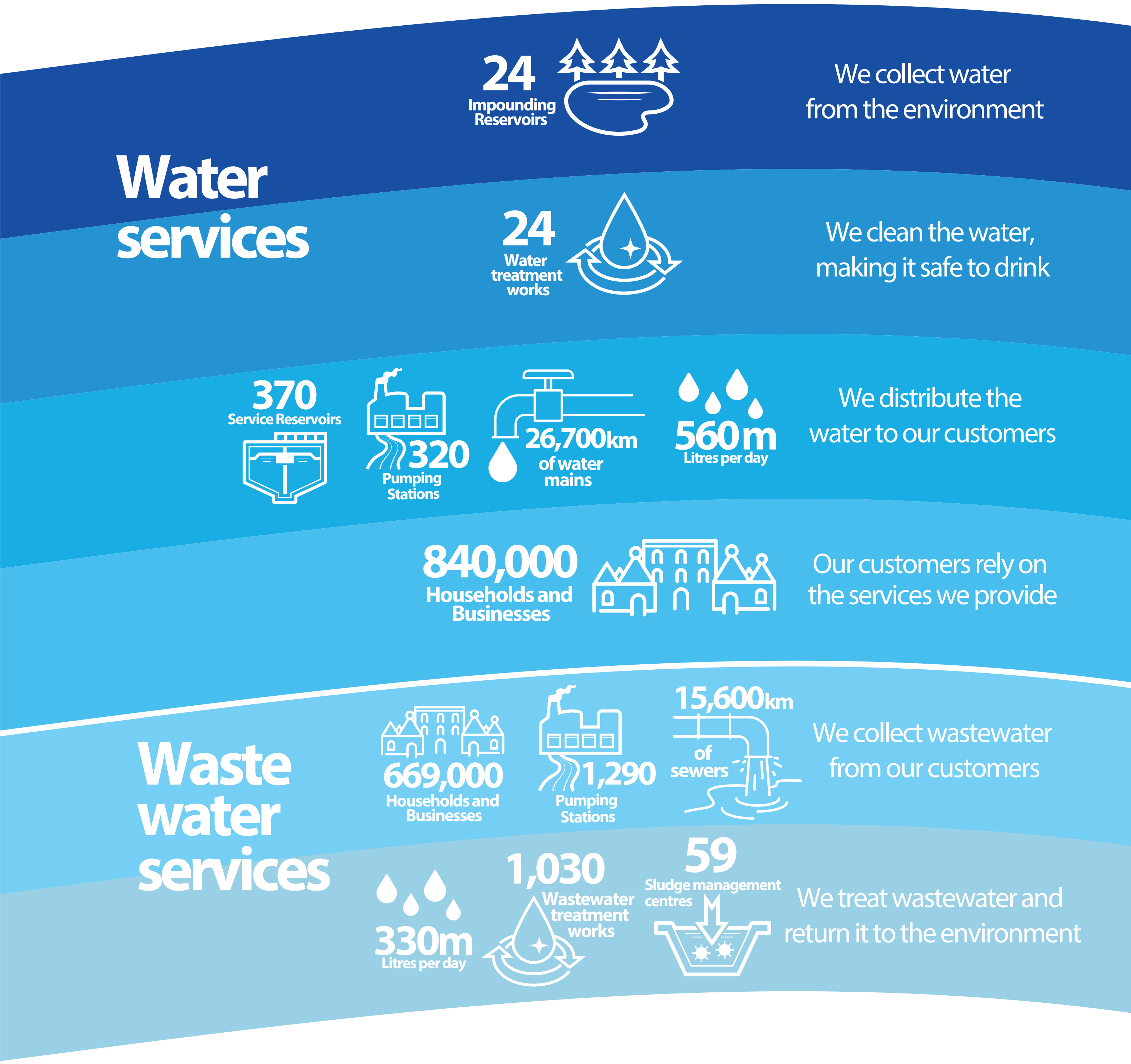
Customer expectations

Customers quite rightly expect better levels of service, making it ever more challenging for all organisations to meet their customers' expectations. Delivering our customer's priorities is central to our strategy and we know we've got to work harder at improving customer service.

*http://www.nisra.gov.uk/archive/demography/population/projections/lgd/SNPP14_PN.pdf

Key business activities

It takes around £435m each year to deliver water and wastewater services in Northern Ireland.



Customer service

We provide you with customer service you value and expect

Key Highlights

1. We are developing new ways of measuring customer service

2. Our new Customer Service Centre will go live in 2016/17

3. We made major enhancements to our customer contact and billing system

Customer service

Measuring customer satisfaction is a crucial part of informing how we should improve our services. We commission independent market research to measure customer satisfaction on a quarterly basis.

The call handling satisfaction surveys were completed in each of the four quarters, achieving an overall average score of 4.59 out of 5. The performance was below the target of 4.65. Customer surveys are invaluable and we will continue to identify opportunities to improve our customer experience.

The way customer service is measured is changing. By improving our services, we aim to reduce the number of customer contacts and the time taken to resolve issues. Our goal is to minimise the need for our customers to contact us but when they do, we want to measure how often we resolve issues on the first contact. We also want to measure how many repeat issues we get, examine why they arose and make process and system changes to continue to improve our service.

During 2015/16, we have in conjunction with the Utility Regulator, CCNI and the Department, developed a new range of customer measures, to complement the customer satisfaction measure. We commenced trials for these new measures in 2015/16 and will continue to monitor them in shadow mode through 2016/17 and 2017/18, with a view to including as regulatory targets from 2018/19.

NI Water 'Flushed' with success at Balmoral Show!

John McGrane, NI Water speaks to visitors at the NI Water stand

The Balmoral Show is one of the highlights in the Northern Ireland events calendar. As the Show continues to get bigger, so too did the crowds flowing to the NI Water stand at this year's event. Visitors to our stand learnt about water efficiency, the Dirty Dozen campaign, Water for Health, FOG (fat, oils and grease) and pesticides, amongst much more. We look forward to returning to the Balmoral Show again next year.

Customer service

Customer service centre

Our new virtual Customer Service Centre will go live in 2016/17. This is an exciting development. Through the use of technology we will be able to make early interventions such as understanding where assets are repeatedly failing and need to be fixed. The Centre will include teams that are involved with activities such as alarm management, work control, customer call handling and major incident planning. The teams will be more integrated with a focus on central operational control and providing excellent customer service.

In addition, we continue to improve the availability of information to our customers. In 2016/17 we will introduce supply interruption mapping to the external website which will better inform customers on problems that may affect their water supply. These improvements will also help us to better communicate with our customers and stakeholders during major incidents.

Metering and billing

Accurate measured bills are central to customer account management. We aim to improve the accuracy of our customer data to ensure that details of our 80,000 non-domestic customers are accurately recorded on our corporate systems and billed in a timely manner. During 2015/16, we made major enhancements to our customer contact and billing system with the introduction of modern technology for our field staff allowing real-time information flows to other parts of the organisation. We also reviewed our business processes to streamline activities and improve efficiency through a major data quality programme.

Drinking water

We provide you with clean, safe water to drink

Key Highlights

1. Drinking water quality target exceeded

2. We are investing to reduce the lead in our distribution network and continue to work with our stakeholders to reduce lead in our customers' properties

Drinking water quality

Delivery of clean, safe drinking water is central to what we do. It underpins the public health and economy of Northern Ireland. Being able to rely on and have confidence in the quality of water that we supply is a fundamental expectation of our customers.

We measure the quality of drinking water at water treatment works, service reservoirs and consumers taps' across Northern Ireland. During 2015, we carried out more than 200,000 water quality tests and exceeded our target for overall compliance with drinking water regulations.

Lead management

The water leaving treatment works and in the distributions systems contains only trace amounts of lead. However where lead has been used for service pipes between the water main and the kitchen tap or in domestic plumbing, there is a risk of non-compliance at the consumers' tap.

Over the PC15 period, we have committed to proactive replacement of over 11,000 lead communications pipes at consumer properties in addition to lead pipe replacement under water main rehabilitation and in response to sample failures. However, 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. We continue to partner with key stakeholders to ensure a joined up approach to the removal and management of lead pipe in public and private water supply systems.

Drinking water

Think about the water you drink - use pesticides responsibly

NI Water is calling on everyone to take care when using and disposing of pesticides to help improve water quality, whether on the farm or in the garden.

What's the problem?
There are residuals of pesticides, particularly the herbicide MCPA, found in many watercourses in Northern Ireland and this is a particular concern in NI Water's drinking water catchments. These may pose a risk to local aquatic life and increase the cost of treating drinking water by NI Water. In order to comply with final drinking water quality standards the pesticides are removed by filtration through Granular Activated Carbon filters in the water treatment process. If these filters are heavily loaded with MCPA then there is considerable additional expense for NI Water. There is currently an enforcement order from the Drinking Water Inspectorate (NI) in the Derg catchment area for NI Water to reduce the risk of noncompliance with the drinking water standard for MCPA. This will require NI Water to invest in additional treatment at the water treatment works.

(L-R) Robin Bolton (CAFRE, Senior Crops Advisor), Steven McDowell (NIEA, Catchment Officer), Barclay Bell (UFU, President); and Roy Taylor (NI Water, Catchment Manager)

In order to address the problem of pesticides entering watercourses from run off from surrounding catchment land areas, the Water Catchment Partnership (WCP) was established in 2013, with representatives from the Ulster Farmers Union (UFU), NI Water, NIEA, and DAERA. The aim of the WCP is to proactively work together to promote and raise awareness of best practice when using pesticides in the garden or on the farm, through a voluntary approach to improve water quality. By reducing the risk at point of use and pesticide residuals entering water courses in drinking water catchment areas the requirement for additional treatment process at our water treatment works and high operational running costs will be reduced.

How you can help?
A leaflet has been produced giving advice on best practice when using MCPA. The leaflet can be viewed at: http://www.niwater.com/siteFiles/resources/pdf/Leaflets/2015/PesticideBooklet.pdf

MCPA
The majority of pesticide problems at water treatment plants in Northern Ireland are caused by MCPA. This herbicide is largely used for the control of broadleaf weeds and rushes in grassland.

Water supply

We supply you with the water you need

Key Highlights

1. 117 km of water mains laid, renewed or relined

2. Leakage reduced by 4 million litres per day

Investing in our water supply infrastructure

We are investing to improve the water supply infrastructure across Northern Ireland to further improve the service to our customers. This includes laying large trunk mains to enable us to transfer water from one area to another and laying water mains in areas where there is a risk of repeat interruptions to supply or low pressure. Over 2015/16, we laid, renewed or relined 117 km of water mains.

£10.9million water mains investment for Belfast and Carrickfergus

NI Water staff involved in the water mains investment project.

During 2015/16, NI Water announced a £10.9 million package of work across Belfast and Carrickfergus to upgrade the water supply infrastructure.

This programme of work will involve the laying of approximately 61km of new water mains in the area and is part of NI Water's ongoing Water Mains Improvement Programme.

This new programme of work commenced in January 2016, and will be part of an overall capital investment by the Northern Ireland Executive of approximately £114million, which will be invested in laying approximately 905km of new water mains across Northern Ireland over the next six years.

Water supply

Leakage

As a result of the assistance of customers and pro-active leakage management by NI Water we have continued to reduce the amount of water lost by 4 million litres per day in 2015/16. We are currently ahead of the target set by the Utility Regulator and will continue to reduce leakage towards the PC15 Sustainable Economic Level of Leakage figure.

Download our new 'App' for reporting leaks

You can now be more water-wise using your phone, thanks to a handy new App launched by NI Water. The App, which can be downloaded free of charge to Apple and Android devices, allows customers to use their smartphone GPS and camera functions to report the location of a water leak.

Larry McAteer from NI Water explains:

"We rely heavily on the information received from the public in relation to leaks and runs of water, and are very grateful for their prompt reporting of such issues to us.

By using the App, reporting leaks will be so much easier and there will be no need to make a call. The App also gives NI Water more precise information on the location and nature of the leak. While it will be useful everywhere, this will be particularly helpful in relation to leaks in rural areas allowing us to pinpoint exact locations. The sooner a leak is reported and fixed, the less likelihood there is of a reduction in water pressure or supply interruptions.

It is such an easy way for the public to inform us of water leaks in their area. We are delighted with the support from Consumer Council and Ulster Farmers Union (UFU) and would encourage everyone to download the App to their phone".

The App is available free from iTunes and Google Play.

The NI Water App can be downloaded as follows:

For Apple devices: https://itunes.apple.com/gb/app/ni-water/id978723488?mt=8
For Android devices: https://play.google.com/store/apps/details?id=com.SimApp

You can also report a leak via our web site niwater.com and click 'Need Our Help?' or by contacting **Leakline** free of charge on **0800 028 2011**. Lines are open 24 hours/day, 7 days/week.

(L-R) UFU President Barclay Bell, NI Water's Larry McAteer and Andrew Culbert from CCNI.

Wastewater

We take care of your wastewater so it doesn't pollute your environment

Key Highlights

1. Wastewater treatment compliance at near record levels

2. We are working with stakeholders to manage flood risk

3. Sewer blockages reduced by almost 40% over the last 6 years

Wastewater treatment compliance

We remove wastewater from homes and businesses all over Northern Ireland. After appropriate treatment the effluent is returned safely to the environment.

Since NI Water was first established in 2007, there have been improvements in wastewater compliance, culminating in last year's near record compliance results at our treatment plants. Over the same period, pollution incidents have shown a significant reduction.

Our wastewater compliance figures in 2015 were at near record levels, with 92.80% of wastewater treatment works compliant and 98.55% population equivalent served by compliant works.

This is clear evidence of the attention we give to safeguarding the natural environment. These excellent results have been delivered through a combination of targeted capital investment in our wastewater assets, coupled with proactive asset maintenance and timely operational interventions to protect the aquatic environment and to reduce the impact of flooding.

Flood risk

We play our part in managing and mitigating flood risk by providing an effective drainage function through our sewer network. The number of sewer flooding incidents has reduced over time however there may be annual fluctuation in figures because flooding performance is strongly influenced by the weather. Flooding is a complex problem and one that requires close collaboration between numerous organisations. We are committed to working with stakeholders to play our part to manage flood risk in Northern Ireland through initiatives such as the flooding incident line and the 'Living with Water Programme'.

We work in partnership with the Rivers Agency and DfI Transport NI to manage the drainage systems and to reduce

flooding incident line
0300 2000 100

the impact of flooding. The Flooding Incident Line is a single telephone number that can be used all day, every day to report flooding.

Living With Water Programme
Strategic Drainage Infrastructure Plan

DfI is leading the 'Living With Water Programme' to facilitate the delivery of a Strategic Drainage Infrastructure Plan for Belfast. NI Water is working with other agencies and stakeholders on the programme to protect against flood risk, enhance the environment and support economic growth. We have identified around £728m of investment to deliver the outputs needed to meet these objectives. These include upgrading Belfast Wastewater treatment works, increasing the capacity of key sewers, pumping stations, and storm attenuation tanks so that there are fewer discharges of dilute sewage to the environment during storm events, and by installing screens on a number of combined sewer overflows.

Wastewater

Pollution from sewers

We are committed to reducing pollution incidents. Our Pollution Reduction Strategy and Action Plan has informed the development and implementation of a wide range of activities ranging from proactive sewer de-silting to focused customer education campaigns.

Sewer blockages are a key contributory factor in flooding and pollution incidents - almost 80% of blockages are due to inappropriate materials in the sewerage system. The number of blocked sewers has reduced by almost 40% over the past 6 years - from around 26,000 in 2009/10 to around 16,000 in 2015/16.

Page 29
Read more about our education campaign to reduce pollution from sewers.

Mountainview Wastewater Treatment Works scheme completed

Work has been completed at Mountainview Wastewater Treatment Works (WwTW) in Co Armagh, and local primary 6 pupils from Dromintee Primary School came along to view the results. This scheme is part of an ongoing £1 million package being invested by NI Water in upgrading wastewater treatment works in rural County Armagh.

The £320,000 investment at Mountainview, Dromintee forms part of NI Water's Rural Wastewater Investment Programme, which has involved extensive refurbishment work across county Armagh, including the recently completed Killeen, Dorsey, Lisnadill and Drumilly WwTW.

Approximately £4 million has been invested overall across Northern Ireland in the latest phase of the Rural Wastewater Investment Programme, a specially tailored package of work which has been designed to upgrade rural wastewater treatment systems serving populations of up to 250 people.

Peter Ferguson, NI Water's Project Manager said:

"NI Water's Rural Wastewater Investment Programme was set up to deliver widespread refurbishment of many minor wastewater works that span the length and breadth of Northern Ireland. The current phase of the project is progressing well with the completion of Mountainview and many other sites in the County Armagh area.

NI Water has designed and implemented bespoke state-of-the-art wastewater treatment systems to replace ageing filtration units and septic tanks, which over the years have become increasingly ineffective."

L-R: Gary Campbell NI Water, Robert Smith McAdam Design, Mr Terry O'Hanlon (Vice-Principal Dromintee Primary School) Christian Beattie, Peter Ferguson, and Catherine Watkins from NI Water pictured on site at Mountainview WwTW with Primary 6 pupils.

People

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

Key Highlights

1. New set of Company values developed in 2015/16

2. Industry recognised health and safety performance

3. We have delivered over 5,400 hours of volunteering

Employer of choice

We aim to be an Employer of Choice in Northern Ireland by offering interesting and attractive careers to both our existing and our prospective work force. We offer performance development planning, career paths, and internal and external training opportunities coupled with working on projects that help employees expand their skills, knowledge and experience. We also strive to offer employees a competitive salary and benefits package which includes paid holidays and a defined benefit pension scheme. These offerings will be assessed in part via employee surveys.

Underpinning our aim to be an Employer of Choice is a new set of Company values which we developed in 2015/16. These encompass customer service excellence, collaborative working and integrity and will be supported by a behavioural competency framework to be developed in 2016/17.

Health and safety

NI Water has a zero harm ambition and is always striving for continuous improvement across all aspects of health and safety. Our improvements are not only recognised by the Royal Society for the Prevention of Accidents (RoSPA) but by other independent forms of assessment relating to areas such as leadership and management of health and safety. These improvements encompass the health and safety performance of our contractors which has been subject to increased scrutiny in 2015/16 through the establishment of a senior management Health and Safety Focus Group. The Group has also established closer monitoring arrangements of internal safety training, incident reporting and investigation.

NI Water staff at a Cares Challenge event in 2015/16

Cares challenge

Our Cares Challenge volunteering programme is one of the largest corporate volunteering schemes in Northern Ireland. Over 780 colleagues have participated on the programme since its inception 4 years ago, which equates to around 5,400 hours of volunteering time. Our employees recognise they can make a real difference to local charities and community organisations. The scheme also represents a fantastic team building opportunity by bringing together employees from all parts of our business to work on a challenge.

People

NI Water wins sixth consecutive RoSPA Gold for Safety

For the second consecutive year, NI Water has been awarded the Royal Society for the Prevention of Accidents (RoSPA) Gold Medal for occupational health and safety performance and continual improvement in the workplace. NI Water has now achieved six consecutive Gold awards from RoSPA. This is a source of great pride for NI Water and supports our corporate and strategic vision for health and safety within the organisation.

Speaking after the Award, NI Water's Head of Safety, Dymphna Gallagher, commented:

"This is a tremendous recognition of all the hard work carried out over the last year by our colleagues and teams across NI Water in seeking to improve health and safety within our business. We all continue to work towards our 'Zero Harm' ambition, to lead the way within the water industry in the pursuit of raising standards and safety performance through the identification and adoption of industry best practice and continual business improvement, and to strive towards 'zero harm' for all of our staff, colleagues, contractors and customers."

NI Water's John McCullagh (Left) receives the RoSPA award on behalf of NI Water

Natural environment

We want to protect and enhance the natural environment

Key Highlights

1. Our infrastructure supports some of the best bathing waters in Europe

2. We are piloting environmentally sustainable solutions

3. We have appointed 17 environmental champions

Bathing waters

Northern Ireland continues to have some of the best bathing water quality in Europe.

In 2015, all 23 of Northern Ireland's identified bathing waters met new stricter European standards for bathing water quality. Fourteen of the 23 met the highest European Union standard, being classed as having 'Excellent' water quality. A further seven were classed as having 'Good' water quality and two as 'Sufficient'. None of Northern Ireland's bathing waters were classed as having 'Poor' water quality for 2015.

Green Apple Award for Stoneyford Integrated Constructed Wetland

NI Water received a prestigious international "Green Apple" environmental Award in recognition of their work to construct an Integrated Constructed Wetland (ICW) for wastewater treatment in Stoneyford, near Lisburn, County Antrim.

This award was a 1st prize, Gold Award for Carbon reduction for the Stoneyford Project, showing the advantages of an Integrated Constructed Wetland solution. It was recognised to have a positive contribution to the local community and an enhancement to the local ecosystem.

The Green Apple organisation is an international non-profit environmental group, encouraging the industry to highlight best practice around the world, sharing ideas and promoting sustainable development. The award ceremony took place at the Houses of Parliament, Westminster.

The Stoneyford site will be a flagship project for NI Water to produce an industry-leading example of how wastewater treatment can be integrated into and complement the local ecosystem.

The ICW method also has a proven track record with cost savings, low energy and low maintenance compared with traditional solutions. This environmentally-friendly solution is particularly suited to rural areas and will be built to accommodate the future wastewater needs of the village.

Sara Venning NI Water CEO said:

"We at NI Water are delighted to win this major environmental award, which is a great opportunity to showcase the Stoneyford project amongst the best environmental projects in the world.

The existing wastewater treatment works in the village was nearing the end of its useful life and needed to be replaced, so NI Water invested approximately £1 million to develop this wetland, which is an important step towards the development of more environmentally - sustainable solutions throughout Northern Ireland.

The ICW solution has been developed from natural concepts and has been used for many years throughout Europe."

Stoneyford Integrated Constructed Wetland

Natural environment

Environmental champions

From working in the office, to educating the public, NI Water staff from across the business have been trained as environmental champions in a bid to educate customers on better flushing habits and how to save water.

Seventeen champions will be informing and educating school pupils, community groups and the general public, on NI Water's environmental campaigns including water efficiency and flushing inappropriate items down the sewer - 'The Dirty Dozen'.

NI Water's environmental champions

Find out more about 'The Dirty Dozen'. http://www.niwater.com/bag-it-and-bin-it/

BAG IT & BIN IT DON'T FLUSH IT

Flushing inappropriate items can block YOUR sewers and even end up on our beaches.

Remember only to flush the 3P's: • **Pee** • **Poo** • **Paper**

Climate change

We adapt to deal with the effects of climate change

Key Highlights

1. Reduced greenhouse gas emissions

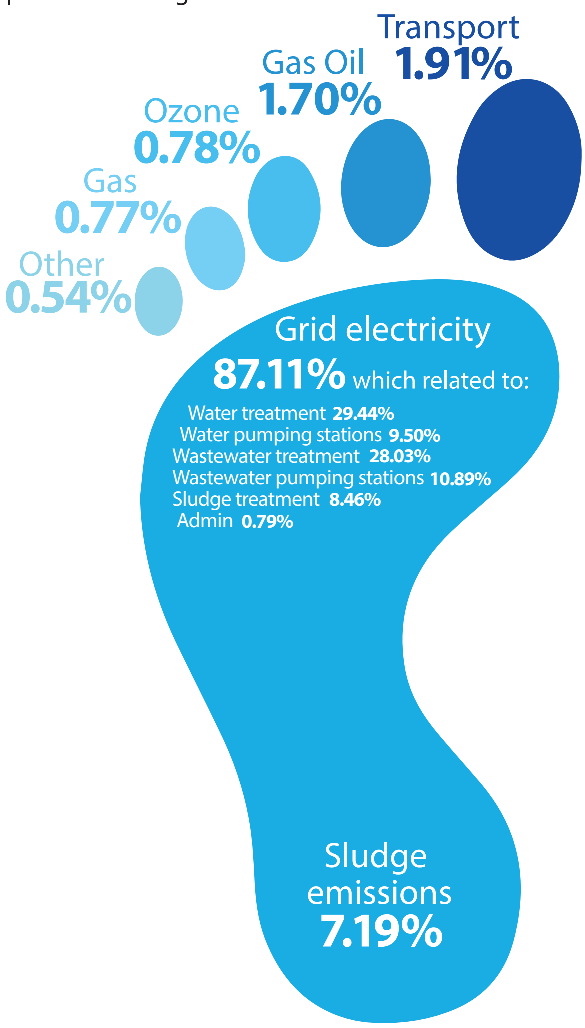
2. Increased resilience to business disruption

Climate change

We are playing our part in addressing climate change through the development and installation of energy efficiency programmes throughout our treatment works. The programme includes the installation of solar panels at nine sites, programming our treatment works to operate at their optimum level and refurbishing our pumps, all of which contributed towards a reduction in our carbon emissions in 2015/16. Our operational greenhouse gas emissions were 0.223 tonnes of carbon dioxide equivalent per million litres of treated water in 2015/16 (2014/15: 0.347 tCO2e/Ml).

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 emissions data is calculated using the Carbon Accounting Workbook developed through UKWIR and WRc with participation from many of the UK Water Companies including NI Water.



Percentages are indicative and based on data from the 2015 Annual Information return (AIR15).

Climate change

Being resilient

We continue to maintain, develop and improve emergency response arrangements for responding to major disruptions to our services. This included a full scale mock incident exercise in October 2015 which tested our effectiveness in responding to a freeze/thaw event.

Utilities launch winter readiness campaign

(L-R) Sara Venning, CEO NI Water, Michael McKinstry, CEO Phoenix Natural Gas, John French, CEO CCNI, Nicholas Tarrant, CEO NIE Networks, Alex Crossan, Managing Director, Networks, BT Northern Ireland

Northern Ireland's main utility Companies joined forces again to launch a winter readiness campaign to assist the public in their preparations for winter. BT, Northern Ireland Electricity Networks, NI Water and Phoenix Natural Gas have been working together regularly over a number of years by providing mutual support and aid during periods of severe weather or other unforeseen situations.

Sara Venning, CEO of NI Water and Chair of the Joint Utilities Working Group said:

"I very much welcome the opportunity to work with my colleagues in other utilities as we prepare for the winter months. The combined breadth of expertise between our Companies enables us to share knowledge and resources to further improve the vital services we deliver to the whole community, often in very severe weather conditions. Although all of our Companies require specialist skills to repair our networks, there are a number of areas where we can share resources such as people, equipment, transportation vehicles and access to buildings."

Value for money

We seek to give you value for money

Key Highlights

1. Water and sewerage tariffs frozen for 2016/17

2. Efficiency gap to leading water and wastewater Companies in England and Wales reduced to 13%

3. Continued investment in innovative solutions

Stable bills for our customers

NI Water has around 80,000 non-domestic customers who pay directly for their water and sewerage services. These customers' bills are made up of a number of 'building blocks' which cover running costs, investment in our asset base and a return on capital invested.

How Every £1 is Spent*

6p	Dividend payable to Shareholder
6p	Local authority rates
7p	Power
11p	Interest on Government Loans
11p	Public Private Partnerships / Private Finance Initiative contractual costs
11p	Employment Costs
12p	Other operating costs
16p	Enhancement of above and below ground network
20p	Maintenance of above and below ground assets

*Based on actual spend for 2015/16.

Customer bills frozen for 2016/17

NI Water announced no change to non-domestic water and sewerage charges. From 1 April 2016 charges have been held at the 2015/16 levels. Trade effluent charges however, have increased by 2.8%. The decision to freeze measured and non-domestic unmeasured tariffs will see nearly 80,000 non-domestic customers benefit from a 'real' reduction to their water and sewerage charge.

NI Water's Director of Finance and Regulation, Ronan Larkin said:

"NI Water's ability to hold water and sewerage charges for 2016/17 at the same levels as 2015/16, is testament to our continued efficiency while improving services, and investing in essential infrastructure. Ideally we would have liked to have held the trade effluent costs, however these customers are also predominately measured water and/or sewerage customers, and as such will still benefit.

This announcement is excellent news for local businesses who continue to trade in difficult economic conditions. Taking into account inflation, our non-domestic customers are paying 12% less, on average, for their water and sewerage services than they did four years ago."

Value for money

Efficient delivery of services

Our focus on controlling operating expenditure and working more efficiently contributed towards a reduction in day to day running costs of 4.2% (£5.4m[4]) in 2015/16, and a 31% (£65m[5]) reduction in running costs since 2009/10. We have more than halved the efficiency gap with the leading edge (frontier) water and wastewater Companies in England and Wales from 49% in 2007/08 to 13%[6] in 2014/15.

Rising to the efficiency challenge in 2015/16

Some of the measures we have taken over 2015/16 to deliver the 4.2% (£5.4m) reduction in day to day running costs are as follows:

- **optimising the wastewater treatment processes** to reduce energy consumption without compromising the quality of treated effluent;
- **changing how we buy our energy** to achieve lower purchase prices;
- targeting known 'hot-spots' to deliver a 35% **reduction in the number of desilting jobs**;
- using **category councils** to sustainably reduce major areas of expenditure. The councils consist of cross directorate teams comprising staff with expertise in relevant expenditure categories.

Innovation

We are committed to investment in innovation through new systems and technologies that provide benefits in terms of reducing day to day running costs and improving service performance. Over 2015/16, our innovation programme included an unmanned aerial vehicle, commonly known as a drone. Over 2016/17, our programme will include exploring energy recovery options from our network.

Introducing Skyhero, NI Water's Drone

The drone has been named 'Skyhero' and was constructed by David Ardis from NI Water. The drone has been used to undertake site surveys and produce 3 dimensional models of assets, eliminating the need for higher cost laser surveys. Possible future uses include inspections of masts and thermal surveys of dams and trunk mains to detect leaks.

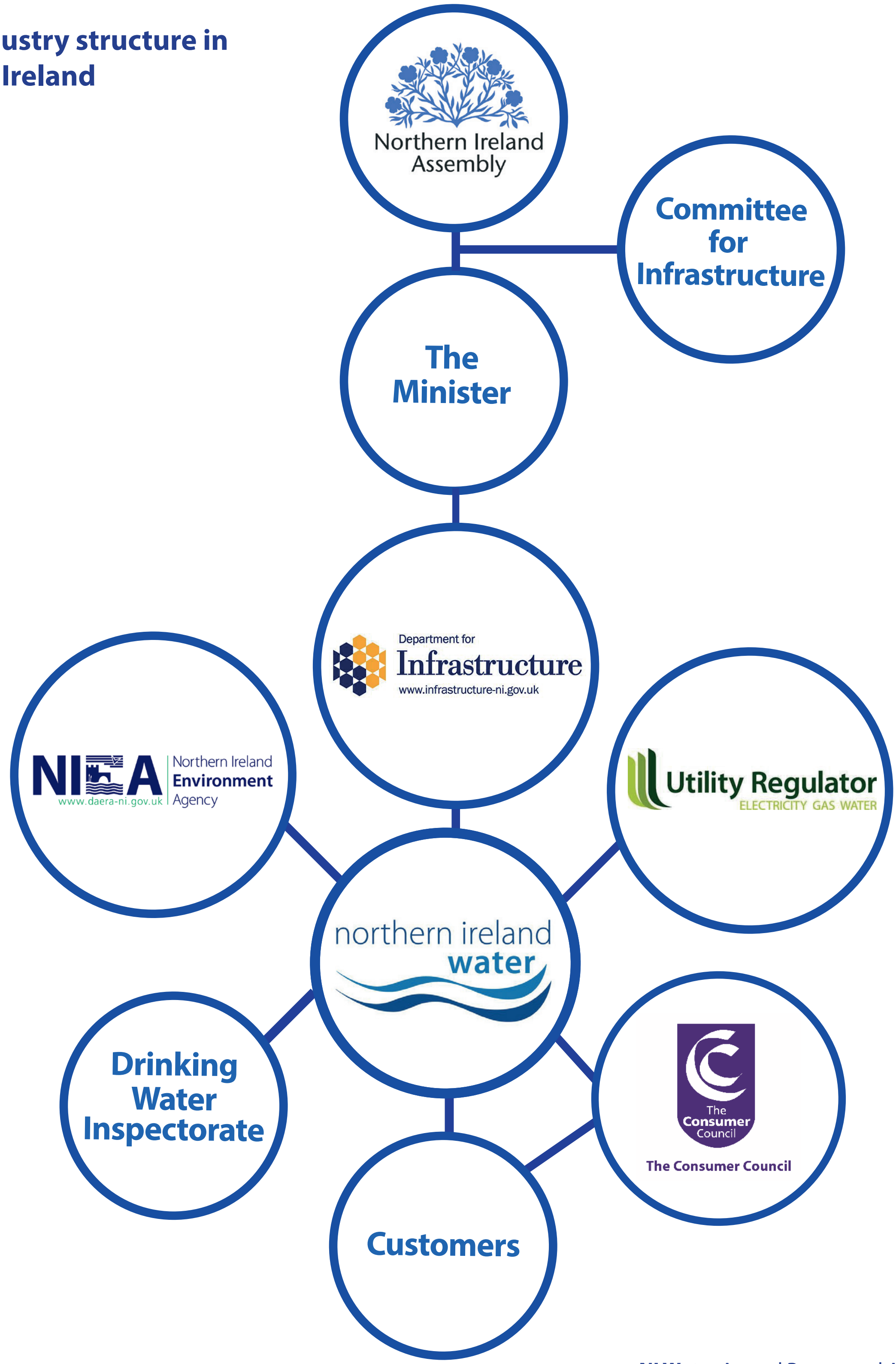
[4] Based on an approach used by the Utility Regulator. Details of this approach are contained within the Utility Regulator's Cost and Performance Report.
[5] Based on a reduction in operational costs between 2009/10 (baseline year) and 2015/16 using 2015/16 prices.
[6] Subject to determination by the Utility Regulator. Measured 1 year in arrears.

External environment

Water and wastewater industry

NI Water is **one of more than 20 providers** of water and sewerage services **in the UK**. The water industry structure in Northern Ireland is shown below.

Water industry structure in Northern Ireland

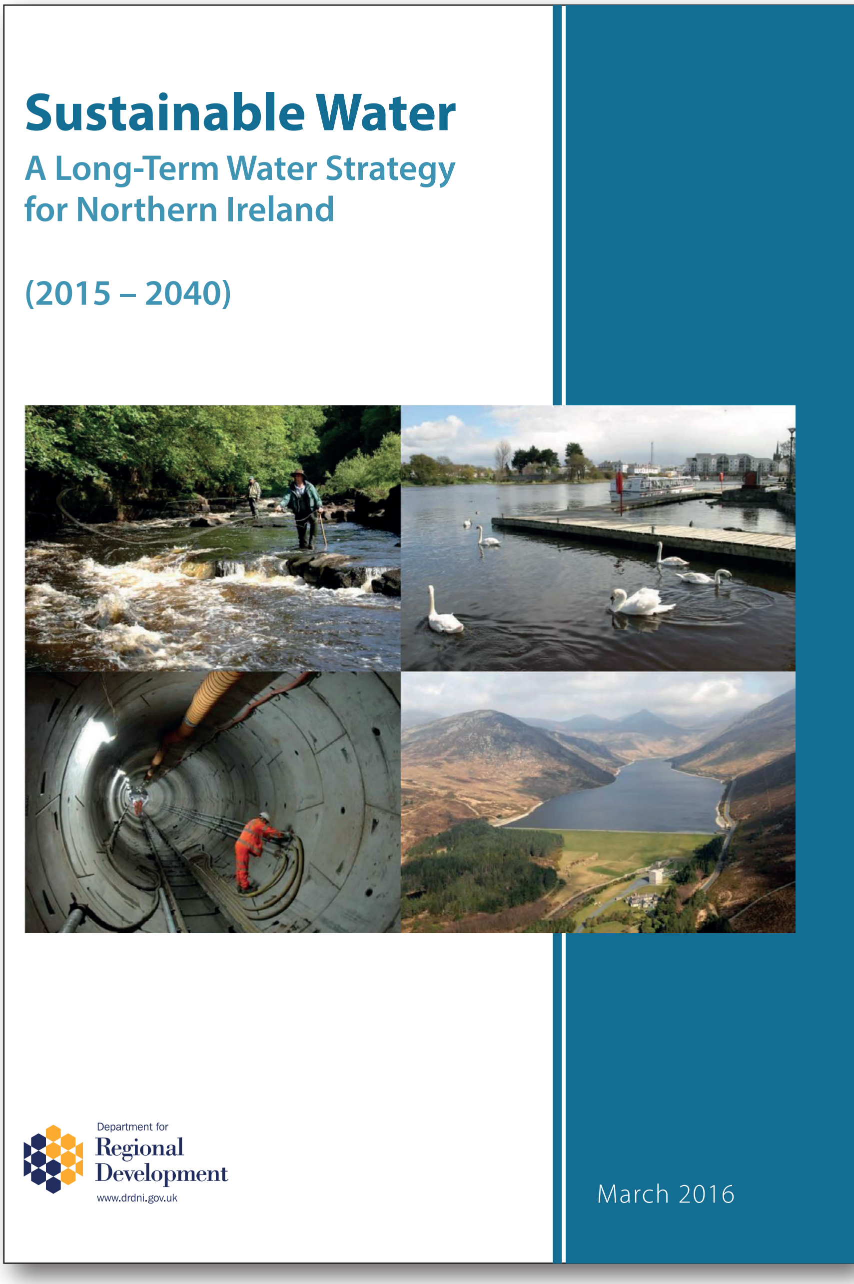


External environment

Long term water strategy

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

Department for Infrastructure (formerly known as the Department for Regional Development) published Sustainable Water - A Long Term Water Strategy for Northern Ireland (2015-2040) in March 2016.



Find out more about DfI's Long Term Water Strategy:

https://www.infrastructure-ni.gov.uk/sites/default/files/publications/drd/sustainable-water-a-long-term-water-strategy-for-northern-ireland-2015-2040.PDF

Public expenditure

NI Water is designated as a Non-Departmental Public Body (NDPB) for Public Expenditure purposes. This followed the decision by the NI Assembly to defer the introduction of direct domestic charges. DfI provides subsidy in lieu of domestic charging[7].

The NDPB designation requires our regulatory funding requirements to be managed within the public expenditure funding constraints. Therefore, whilst the Utility Regulator determines the expenditure necessary to deliver outputs in a price control period, the actual funding is constrained by public expenditure allocations to NI Water. This situation has been partially addressed by a Memorandum of Understanding (MoU) between DfI and the Utility Regulator which sets out how the public expenditure regime and regulatory regime co-exist.

[7] Water and sewerage charges are levied on non-domestic customers.

Financial performance

NI Water, as a regulated water Company, is required to prepare two sets of accounts to report on financial performance:

- Statutory Accounts covering both our appointed (regulated) and non-appointed (non-regulated) businesses prepared under International Financial Reporting Standards (IFRS); and
- Regulatory Accounts for our appointed (regulated) business prepared under the Regulatory Accounting Guidelines issued by the Utility Regulator.

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

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

Pages 60 to 102
Read our Statutory Accounts.

The Regulatory Accounts are published separately.

See the latest Regulatory Accounts at: https://www.niwater.com/publications/

Statement of Comprehensive Income

Our Statement of Comprehensive Income as presented on page 62 is summarised below.

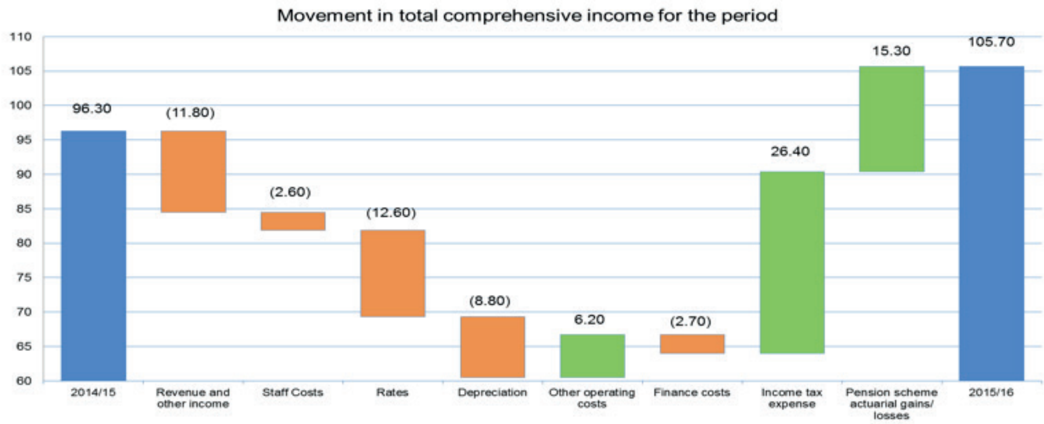
The £101.4m profit for the year is an accounting profit and provides no additional spending power either to NI Water or DfI.

Summary Statement of Comprehensive Income

	Year to 31 March 2016 (£m)	Year to 31 March 2015 (£m)
Revenue	**413.5**	425.6
Results from operating activities	**163.4**	193.1
Net finance charges	**(64.3)**	(61.6)
Profit before income tax	**99.1**	131.5
Income tax credit / (expense)	**2.3**	(24.1)
Profit for the year	**101.4**	107.4
Other comprehensive income / (expenditure), net of income tax	**4.3**	(11.1)
Total comprehensive income for the period	**105.7**	96.3

Financial performance

The movement in total comprehensive income is summarised below:



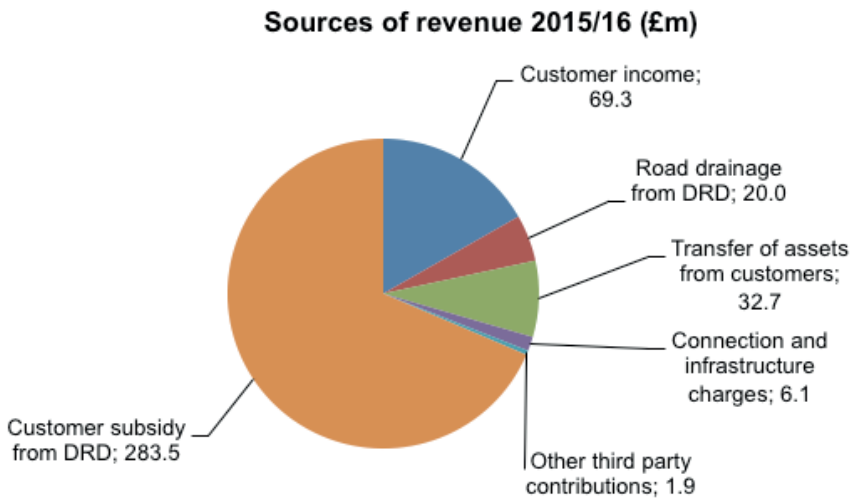
Revenue

Domestic consumers are not charged directly for water and sewerage services. As a result, NI Water is dependent on Government subsidy for around 69% of its funding.

The **customer subsidy** from Government covered the full domestic charge and this arrangement will remain in place in 2016/17.

Revenue was £413.5m for the year to 31 March 2016 (2015: £425.6m). Included in revenue was £303.5m (2015: £298.8m) received from DRD, being subsidy of £283.5m and road drainage charges of £20.0m.

The **increase in the customer subsidy in 2015/16** was due to a combination of changes in the notional household tariffs (water tariff decrease and sewerage tariff increase) and a re-assessment of the value of domestic allowance subsidy payable to NI Water.

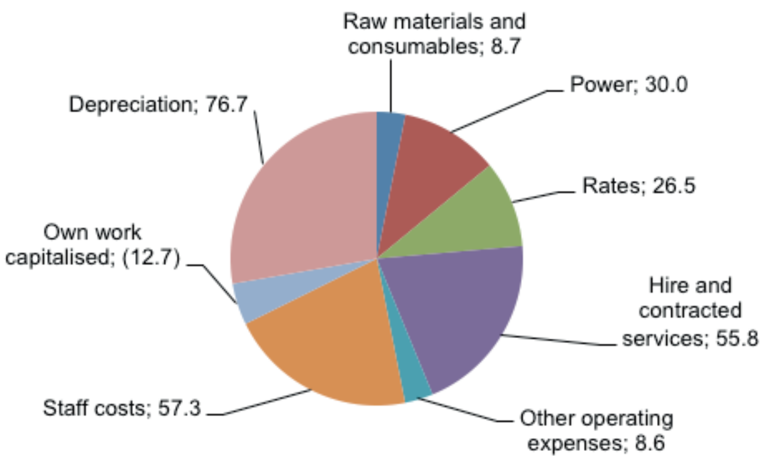


Financial performance

Operating activities

Operating expenses in 2015/16 of £251m (2015: £233.1m) increased from last year. The increase primarily resulted from higher rates, depreciation and staff costs offset in part by lower hired and contracted costs and other operating costs.

Results from operating activities before interest for the year was £163.4m (2015: £193.1m).



Figures in pie chart may not add due to rounding.

NI Water is one of the largest users of electricity in Northern Ireland. We spent around **£30m** on **power** in 2015/16, of which around 50% is used to pump water and wastewater.

Pages 30 and 33
Read more about the use of innovation and new technology to reduce our operating expenses.

Finance income and costs

The net finance costs are primarily due to interest on our borrowings of £43.9m (2015: £41.5m) and on our PPP liabilities of £20.1m (2015: £20.4m) and net finance costs on the pension fund of £0.4m (2015: net finance income £0.2m) partly offset by bank interest received of £0.1m (2015: £0.1m).

Taxation

The tax credit for the year was £2.3m (2015: charge of £24.1m) driven largely by the reduction in the rate of corporation tax. The effective tax rate for the year to 31 March 2016 was (2.3%) (2015: 18.4%).

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.

Distributions

The Board will consider a proposal to declare a dividend of £23m in July 2016 (2015: £25m).

The dividend to DfI represents **a return to the tax payer** on the amount invested in the Company.

Financial performance

Capital structure

The Statement of Financial Position at 31 March 2016 as presented on page 61 is summarised below.

Total assets increased by 3.9% to £2,816m (2015: £2,711m).

Our net debt[8] figure was £1,193.1m at 31 March 2016 (2015: £1,162.8m).

Gearing (the ratio of net debt to equity and net debt) decreased to 48.4% (2015: 49.4%).

Summary Statement of Financial Position

	Year to 31 March 2016 (£m)	Year to 31 March 2015 (£m)
Total non-current assets	**2,776.2**	2,672.7
Total current assets	**39.5**	38.1
Total Assets	**2,815.7**	2,710.8
Equity	**1,274.4**	1,193.4
Total non-current liabilities	**1,404.2**	1,376.9
Total current liabilities	**137.1**	140.5
Total liabilities	**1,541.3**	1,517.4
Total equity and liabilities at 31 March	**2,815.7**	2,710.8

Liquidity

Operating activities generated a net cash inflow of £195.8m (2015: £220.2m). Net cash outflows of £134.8m (2015: £169.2m) related to investing activities. Net financing activities created a cash outflow of £58.8m (2015: £52.7m).

Investing activities included the acquisition of **property, plant and equipment** of **£136.6m** (2015: £170.6m), proceeds from the sale of property, plant and equipment of £1.7m (2015: £1.0m) and interest received of £0.1m (2015: £0.1m).

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).

Working capital represents the funds available for day to day operations. It includes stocks, trade debtors and trade creditors.

Dividends paid to DfI during the year totalled **£25m** in respect of the previous financial year (2015: £24m in respect of 2014).

[8]Refer to notes 18 and 20 in the Statutory Accounts. Net debt consists of loans of £983.6m (2015: £947.6m) and finance leases of £212.7m (2015: £216.1m) less cash and cash equivalents of £3.2m (2015: £0.9m).

Financial performance

Pension funding

The pension scheme was valued at a liability of £7.2m at 31 March 2016 (2015: liability of £11.6m). This was made up of a total market value of assets of £207.6m (2015: £204.1m) less actuarial value of liabilities £214.7m (2015: £215.7m). The reduction in the liability has been driven primarily by actuarial gains arising from an increase in the discount rate assumption on fund obligations offset somewhat by actuarial losses on the assumptions on performance of fund assets.

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

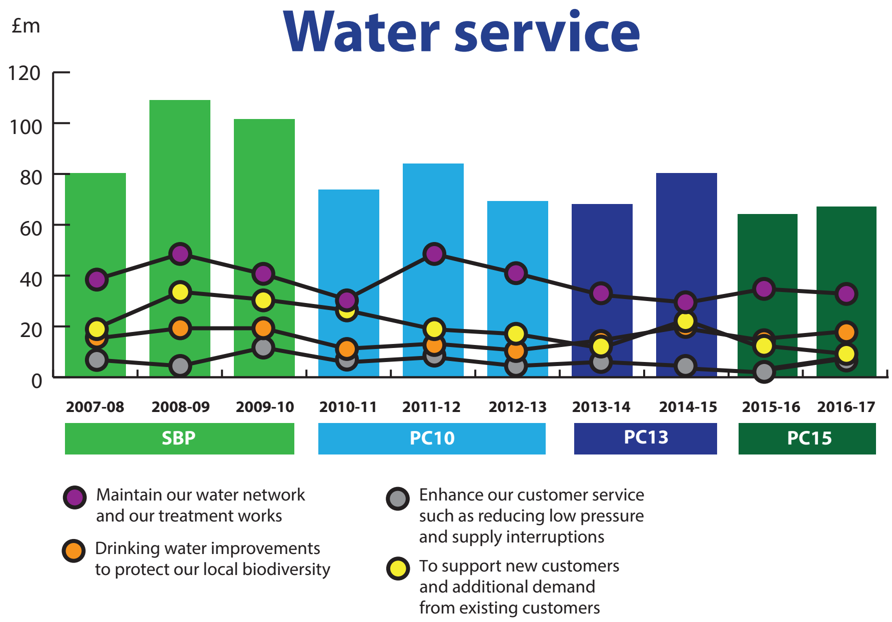
Investing in our water and wastewater infrastructure

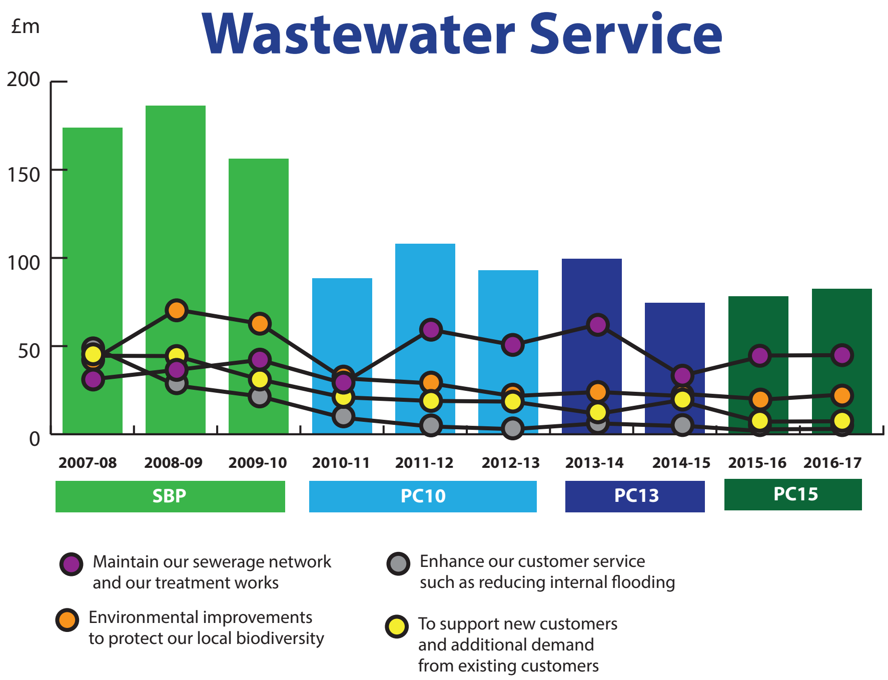
We have invested £1.9 billion in Northern Ireland's water and sewerage infrastructure since our formation in 2007/08.

Around £140m of capital investment was delivered during 2015/16. Investment of £150m is planned for 2016/17. The Company spends around £85m a year on maintaining the current assets. Around a further £70m a year is spent to deliver quality enhancements, improve service and accommodate growth. The current levels of asset maintenance are likely to continue to be required in the future and may increase as the assets continue to age.

Investment in 2015/16 included the completion of 3 **Wastewater Treatment Works**, remediation of 26 **unsatisfactory intermittent discharges** and laying approximately **117km of new and replacement water mains.**

Financial performance





This Strategic Report was approved by the Board of Directors on 28 June 2016 and signed on its behalf by Mark Ellesmere, Company Secretary.

Mark Ellesmere
Company Secretary
28 June 2016

Governance

NI Water analyst carrying out microbiological testing of drinking water samples at Westland House laboratory, Co. Antrim.

Corporate governance

Chairman's introduction

I am pleased to present the Corporate Governance Report for 2015/16. This report describes the key features of the Company's corporate governance structure and compliance with the relevant provisions given its status as a Government Owned Company (GoCo) under the Companies Act 2006 and as a Non-Departmental Public Body (NDPB) sponsored by DfI. The Board is committed to the principles of good corporate governance.

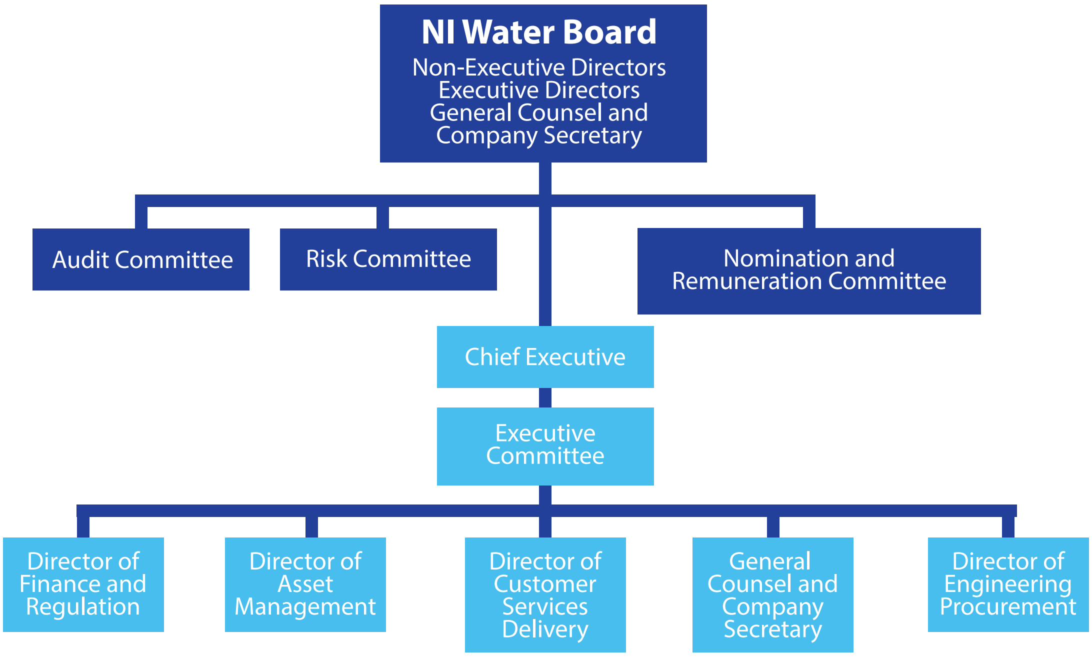
Compliance statement

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

The Board considers that, during the year and up to the date of this report, it has complied with the main principles of corporate governance that applies to NI Water as set out within the MSFM. The MSFM draws on best practice corporate governance arrangements as set out in the 'UK Corporate Governance Code' and the 'Corporate Governance for Central Government Departments: Code of Best Practice Northern Ireland' (Governance Code).

Board and Executive Committee structure

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 is outlined in the MSFM:

https://www.niwater.com/sitefiles/resources/pdf/msfm-updated-270712.pdf

Board committees

A committee structure is in place to assist the Board in the discharge of its responsibilities. The Terms of Reference may be obtained on written request from the Company Secretary at the address given on the back cover of this report. The membership of the Board Committees is set out below:

Board Committee	Membership
Audit Committee	**Peter McNaney CBE (Chair)**
	Jim McCall
	John Rae
	Kevin Steele (until 31 July 2015)
	Jim Stewart CBE (until 31 July 2015)
Risk Committee	**John Rae (Chair)**
	Kingsley Donaldson
	Trisha McAuley OBE
	Jim Stewart CBE (until 31 July 2015)
	Deep Sagar (until 31 July 2015)
Nomination and Remuneration Committee	**Dr Leonard J. P. O'Hagan CBE (Chair)**
	Peter McNaney CBE
	John Rae
	Jim Stewart CBE (until 31 July 2015)

Length of service

The time served by Board members is shown below:

	Length of service as at 31 March 2016 (years)	Date of appointment	Date of expiry
Dr Leonard J. P. O'Hagan CBE	-	1 April 2015	31 March 2019
John Rae	4	22 August 2011	31 July 2019
Peter McNaney CBE	-	1 August 2015	31 July 2019
Jim McCall	-	1 August 2015	31 July 2019
Trisha McAuley OBE	-	1 August 2015	31 July 2019
Kingsley Donaldson	-	1 August 2015	31 July 2019
Kevin Steele	5	21 June 2010	31 July 2015
Deep Sagar	4	22 August 2011	31 July 2015
Jim Stewart CBE	4	22 August 2011	31 July 2015
Sara Venning	5	21 May 2010	n/a
Ronan Larkin	10	19 September 2005*	n/a
Sean McAleese	1	12 January 2015	n/a
Martin McIlwaine**	-	11 July 2015	n/a
Mark Ellesmere	9	26 June 2006*	n/a
George Butler	10	28 April 2005*	5 August 2015

* Service pre 1 April 2007 is in respect of DRD Water Service.
** Martin McIlwaine was appointed Interim Director of Asset Management on 11 July 2015. He is not a Director of the Company under the Companies Act 2006.

Report by Peter McNaney CBE, Chair of the Audit Committee

The Audit Committee monitored the integrity of financial reporting together with the Company'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.

The significant issues 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 appraised during the year of the funding position for 2015/16 including the agreement of a budget and revised outputs for the year with stakeholders. They were also kept advised of the agreement of an Operating Plan and Budget for the year 2016/17 and ongoing liaison with DRD to reach a medium term settlement for future years;
- **The renewal of banking arrangements:** this included the creation of a new loan instrument from 1 April 2016 (ability to draw-down on the existing loan instrument ceased from March 2016) and agreement of a bank overdraft facility (the previous agreement expired in March 2016);
- **Future of Regulatory Accounting Requirements:** the Audit Committee was updated in respect of changes made by Ofwat to the Regulatory accounting requirements of water and sewerage Companies in England Wales. They were also kept appraised of ongoing discussion with the Utility Regulator on Regulatory accounting requirements; and
- **The 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 and to consider Internal Audit's Annual Assurance Statement.

The Audit Committee met with the Company's External Auditor at least four times in the year. The Committee and the External Auditor also held separate meetings without the attendance of executive management. In their assessment of the independence of the External Auditor, the Committee received in writing details of relationships between the External Auditor and the Company, which may bear on the External Auditor's independence and received confirmation that they are independent of the Company as required by International Standard on Auditing (UK and Ireland) 700 Revised.

The Audit Committee approved the level of the External Auditor's fees in respect of the audit of the Statutory and Regulatory Accounts of the Company, along with other financial information returns to the Utility Regulator, considered the

adequacy of the External Auditor's proposed audit plan, and reviewed compliance with their letter of engagement.

The Audit Committee reviewed the non-audit services provided by the External Auditor. 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, such as design and implementation of financial information systems, are precluded from being provided by the External Auditor.

Page 78
See note 7 to the Statutory Accounts for the fees relating to audit and non-audit services.

The Audit Committee approved the Internal Audit Strategy and monitored completion of the 2015/16 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 met with the Chairman of the Audit Committee without management to discuss the Company'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. An External Quality Assessment (EQA) of the Internal Audit function was completed in 2015/16. The EQA concluded very high conformance with the relevant professional standards and benchmarking of overall effectiveness found it to be operating in the upper range of audit.

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). A formal report of the operation of the Audit Committee was presented to the Board.

Report by John Rae, Chair of the Risk Committee

The Risk Committee provided oversight on NI Water's risk management framework and strategic risk management. The Committee met on a quarterly basis and reviewed the risk management system and processes, the strategic risks and opportunities management towards the achievement of the Company's objectives, risk appetite, forward and future risks, risk horizon scanning, benchmarking of risks, training and awareness and the management of actions to reduce the Company's risk exposure to an acceptable level and maximising its opportunities.

The Risk Committee reviewed strategic and operational risks and as Chair of the Risk Committee I provided a report to the Board on a quarterly basis on key matters of risk and assurance. A strategic risk 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 in relation to research, development and innovation in risk and opportunity management.

A joint meeting between the Risk Committee and Audit Committee was held to review the effectiveness of the Company's 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 was presented to the Board and the Board approved the revised Terms of Reference of the Committee in July 2015.

Report by Dr Leonard J.P. O'Hagan CBE, Chair of the Nomination and Remuneration Committee

Refer to the Directors' remuneration report on pages 54 to 58.

Directors' interests in contracts

No Director had a material interest at any time during the year in any contract of significance with the Company. Details of Directors' interests in other Companies are disclosed in note 29 to the Statutory Accounts.

Performance and effectiveness reviews

Four new Board Members were appointed in August 2015. On that basis a review of Board effectiveness (including Board Committees) will be undertaken in Q2 2016/17.

Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2015/16 are shown below:

	Board meeting			Audit Committee			Risk Committee			Joint Audit and Risk Committee			Nomination and Remuneration Committee		
	Held[9]			Held[9]			Held[9]			Held[9]			Held[9]		
	Total	Available to attend[10]	Attended	Total	Available to attend[10]	Attended	Total	Available to attend[10]	Attended	Total	Available to attend[10]	Attended	Total	Available to attend[10]	Attended
Dr Leonard J. P. O'Hagan CBE	11	11	10	-	-	-	-	-	-	-	-	-	1	1	1
John Rae	11	11	10	4	3	3	5	5	4	1	1	1	1	1	1
Peter McNaney CBE	11	7	6	4	3	3	-	-	-	1	-	-	1	1	1
Jim McCall	11	7	7	4	3	3	-	-	-	1	-	-	-	-	-
Trisha McAuley OBE	11	7	6	-	-	-	5	3	2	1	-	-	-	-	-
Kingsley Donaldson	11	7	7	-	-	-	5	3	3	1	-	-	-	-	-
Kevin Steele[11]	11	4	4	4	1	1	-	-	-	1	1	1	-	-	-
Deep Sagar[11]	11	4	2	4	1	1	5	2	-	1	1	1	-	-	-
Jim Stewart, CBE [11]	11	4	2	4	1	1	5	2	2	1	1	1	-	-	-
Sara Venning	11	11	11	4	4	4	5	5	5	1	1	1	-	-	-
Ronan Larkin	11	11	11	4	4	4	5	5	5	1	1	1	-	-	-
Sean McAleese	11	11	10	-	-	-	5	5	4	1	1	1	-	-	-
Martin McIlwaine[12]	11	9	9	-	-	-	5	3	3	1	-	-	-	-	-
Mark Ellesmere	11	11	11	4	4	4	5	5	5	1	1	1	1	1	1
George Butler[13]	11	4	3	-	-	-	-	-	-	-	-	-	-	-	-

Executive Committee

The Chief Executive is supported by the Executive Committee.

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

[9] This does not include ad hoc Board meetings during the year on specific items.
[10] These columns reflect the fact that a number of Directors were either appointed to, or resigned from the board, during the year, therefore were not available to attend all meetings (see 'Length of Service' section on page 44).
[11] Service contract expired on 31 July 2015.
[12] Martin McIlwaine was appointed Interim Director of Asset Management on 11 July 2015. He is not a Director of the Company under the Companies Act 2006.
[13] George Butler ceased his employment with NI Water on 5 August 2015.

Governance statement

Introduction

The Governance section on pages 42 to 59 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 pages 43 to 47, the Governance Statement needs to be read in conjunction with these pages. 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 policies, aims and objectives. 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 agreed between NI Water and DfI.

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 against its targets.

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 provide a governance framework for decision making and the achievement of value for money. The system of internal control is designed to manage risk and opportunity to a reasonable level, and to achieve the Company's vision and strategic outcomes. 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 Company's strategic outcomes, 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 well-being of our colleagues within a cost effective environment.

The Company's 'Integrated Governance Framework', supported by the 'Risk and Assurance 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 2016 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's Risk Management Policy is updated on a regular basis and clearly defines the roles and responsibilities of the Board, its Committees, the Executive Committee, Directors and employees. There is a clear chain of accountability from the Accounting Officer to all employees. The Policy provides guidance on how to implement 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 risks and opportunities at the start of the year. This included risks faced by other water and wastewater entities, the Internal Audit Opinion, the Accounting Officer's Annual Assurance Statement, changes in legislation and Government guidance, and a review of emerging business risks.

During the year, the Executive Committee met on a quarterly basis to assess and evaluate risks and opportunities and agreed the necessary improvements required to address evolving business needs. The corporate and directorate risk registers have clearly defined risk owners. These registers were reviewed on a continual basis using the risk management software, with monthly reports generated for monitoring purposes. A detailed risk and opportunity map was used to identify the consequences, controls, required actions and was presented to the Risk Committee and Board. 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 risks 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 made recommendations to the Board on the appropriate risk appetite. The Board approved the risk appetite and reviewed the action plans in place to manage the risk exposure.

The Board provides a monthly 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 risks which impact upon them.

Key risks materialising in year

During the year there were no key risks which materialised into potentially significant issues. Corporate risks were managed in an effective manner, such as to limit any negative impact, and address the issues in a timely and controlled manner. At the same time, key opportunities were managed to deliver corporate value through more effective and innovative services to the customers and further empower our colleagues to deliver quality services.

Internal Audit

Prior to the start of the year, Internal Audit presented its rolling three-year Strategy to the Audit Committee for approval. The Head of Internal Audit reported to the Accounting Officer and Audit Committee throughout the year on: progress in delivery of the Audit Plan, any significant issues identified, progress in addressing internal audit recommendations and any advisory or ad hoc activity. 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 2016 is 'Satisfactory': 'While there is some residual risk identified this should not significantly impact on the achievement of objectives'. This assurance is based on the results of the internal audit reviews carried out, follow-up reviews, relevant advisory work, all of which inform the consideration of the current overall internal control, governance and risk management framework. Any significant issues raised during the year were sufficiently addressed to the extent that they did not negatively impact the overall annual assurance opinion.

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 on the implications of the result of my review of the effectiveness of the system of internal control by the Board, Audit Committee and Risk Committee, 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 risks. 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' as outlined in the annual Internal Audit Assurance Statement.

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 'Principal risks and opportunities' section, while others are reported to the Shareholder under Department Accounting Officer reporting requirements.

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

Sara Venning
Accounting Officer
28 June 2016

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2016.

Principal activities

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

Going concern

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2016. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Company operates as described below.

- NI Water is subject to economic regulation rather than market competition. As a result, NI Water 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 receives funding by means of a subsidy provided by DfI. Due to the level of subsidy, NI Water is also designated as a NDPB and is subject to public sector spending rules i.e. public expenditure.

- As required by the Licence, NI Water submitted a Business Plan to the Utility Regulator in March 2014 setting out its proposals for the price control period from 1 April 2015 to 31 March 2021 (PC15). The Utility Regulator published a Draft Determination for consultation in July 2014 and a Final Determination in December 2014.

- On 10 February 2015, NI Water advised the Utility Regulator that the Board would, on balance, have been willing to accept the PC15 Final Determination subject to public expenditure funding to the levels established by the PC15 Final Determination, an appropriate risk mitigation mechanism and other flexibilities. However a shortfall in public expenditure funding in 2015/16 and no clarity of funding for the period beyond 2015/16, meant the Board had no option but to reject the PC15 Final Determination in the circumstances.

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

- DfI has confirmed that the final 2016/17 budget allocation for NI Water falls below PC15 Final Determination so a similar process has been undertaken to agree changes to 2016/17 regulatory outputs. On 1 June 2016, the Utility Regulator confirmed acceptance of NI Water proposals for adjusted outputs for 2016/17 against which delivery will be monitored.

- 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.

On the basis of the discussions, the Directors have formed a judgement at the time of approving the financial statements that the Company has adequate resources to continue in operational existence for the foreseeable future and as such to continue as a going concern. Further information on going concern is contained in note 1(c) to the financial statements on page 66.

Future developments

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

Dividends and reserves

The Company's dividend policy is to provide a return to the Shareholder DfI based on a percentage of the regulatory capital value less net debt. It is anticipated that a final dividend of £23.3m for the year ended 31 March 2016 (2015: £24.7m[14]) will be approved by the Shareholder upon the recommendation of the Board in July 2016 and paid in August 2016 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2016.

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 44.

Directors' and Officers' indemnities

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

Policy on the payment of creditors

The Company's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative 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 2016, was 31.7 days (2015: 31.1 days).

The Company 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 2016, the year to date ratio stood at 11.4 days (2015: 11.3 days).

Political and charitable contributions

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

Research and development

NI Water invested £0.2m on research and development in 2015/16 (2015: £0.3m). Refer to note 2(d)(i) to the financial statements for the accounting treatment.

Employees

The Company utilises a number of communication channels to keep its employees involved in the Company's affairs to engage them and keep them informed and appraised on the Company's performance and other business related matters. The Company is opposed to all forms of unlawful and unfair discrimination. It is the Company's policy to promote equality of opportunity for all our employees during their employment with the Company.

Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2016, it had available to it sufficient rights and assets, not including financial resources, which would enable a

[14] This dividend in respect of the year ended 31 March 2015 was paid in August 2015.

special administrator to manage the affairs, business and property of the Company in order that the purposes of a special administration order could be achieved if such an order were made.

Regulation -'cross directorships'

Directors and employees of NI Water may be Directors of related Companies when this is in the best interests of NI Water, and where appropriate arrangements are in place to avoid conflicts of interest. 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 30.

Disclosure of information to auditors

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

Auditor

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

By order of the Board

Mark Ellesmere
Company Secretary
28 June 2016

Directors' remuneration report

Report by Dr Leonard J. P. O'Hagan CBE, Chair of the 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 once in the year.

Board appointments and diversity

The Nomination and Remuneration Committee has responsibility for considering the size, structure and composition of the Board of the Company, retirements and appointments of additional and replacement Directors, succession planning and making recommendations 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.

Remuneration policy

The Company's policy on remuneration of Executive Directors and Executives is to attract, retain and motivate the best people, recognising the input they have to the on-going 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 the Company has been subject to public sector pay policy in 2015/16 as a result of the NI Executive's decision to apply the UK Government's pay policy for public sector staff.

Annual bonus

There was no bonus scheme in 2015/16 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.

Non-Executive Directors' remuneration

The Chairman receives a fee of £833[15] per day and the Non-Executive Directors receive a fee of £750[16] per day. 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 47.

[15]The fee per day is £833 for up to four days per month, increasing to £1,000 per day for a maximum of five additional days.
[16]The fee per day is £750 for up to two days per month, remaining at £750 per day for a maximum of four additional days.

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 three years and the DfI Minister has the option of re-appointing for a further three years after consideration of a performance assessment.

Fees paid to members of the Executive Committee

	Year to 31 March 2016					Year to 31 March 2015				
Current Executive Directors:	**Salary and allowances £000**	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Pension benefits[17] £000**	**Total £000**	**Salary and allowances £000**	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Pension benefits £000**	**Total £000**
Sara Venning	150 - 155	-	-	63	210-215	145 - 150	-	-	55	200-205
Ronan Larkin	115 - 120	-	-	47	165-170	120 - 125	-	-	31	150-155
Sean McAleese	110 - 115	-	-	27	135-140	20 - 25 [18]	-	-	-[19]	20-25
Current members of the Executive Committee (not Executive Directors):										
Bill Gowdy	95 - 100	-	-	33	130-135	90 - 95	-	-	24	115-120
Mark Ellesmere	110 - 115	-	-	55	165-170	105 - 110	-	-	30	135-140
Martin McIlwaine	65 - 70 [20]	-	-	6 [21]	70-75	n/a	-	-	n/a	n/a
Former Executive Director:										
George Butler	40 - 45 [22]	-	-	51[23]	90-95	110 - 115	-	-	31	145-150

[17] 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.
[18] £110k - £115k on a full year equivalent basis. Sean McAleese was appointed as Director of Customer Services Delivery on 12 January 2015.
[19] The value of all pension related benefits are assessed over the period from 12 January 2015, the date on which he was appointed as a Director, to 31 March 2015.
[20] £85k - £90k on a full year equivalent basis. Martin McIlwaine was appointed as Interim Director of Asset Management on 11 July 2015.
[21] The value of all pension related benefits are assessed over the period from 11 July 2015, the date on which he was appointed as a Director, to 31 March 2016.
[22] £115k - £120k on a full year equivalent basis. George Butler ceased to be Director of Asset Management on 5 August 2015.
[23] The value of all pension related benefits are assessed over the period from 1 April 2015, to 5 August 2015, the date on which he ceased to be Director of Asset Management.

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 (2015: £145k to £150k). This was 4.97 times (2015: 5.12 times) the median remuneration of the workforce, which was £30,694 (2015: £28,823). The change in the pay multiple (ratio) between 2015/16 and 2014/15 was primarily due to the payment of back-dated pay uplifts for both 2014/15 and 2015/16, which increased the overall salary value. There was also a consequent increase on overtime per-hour costs, and an additional increase in on-call allowance payments.

	Year to 31 March 2016 Total	Year to 31 March 2015 (restated) Total
Highest paid Director (£'000)	150 - 155	145 - 150
Median total remuneration (£)	30,694	28,823
Pay multiple (ratio)	4.97	5.12
Range of remuneration (£'000)	14 - 151	14 - 147

Fees paid to Non-Executive Directors

	Year to 31 March 2016				Year to 31 March 2015			
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 - Chairman	40 - 45	-	-	40 - 45	-	-	-	-
John Rae	15 - 20	-	-	15 - 20	15 - 20	-	-	15 - 20
Peter McNaney	10 - 15[24]	-	-	10 - 15	-	-	-	-
Jim McCall	10 - 15[24]	-	-	10 - 15	-	-	-	-
Trisha McAuley	10 - 15[24]	-	-	10 - 15	-	-	-	-
Kingsley Donaldson	10 - 15[24]	-	-	10 - 15	-	-	-	-
Former Non-Executive Director:								
Kevin Steele	5 - 10[24]	-	-	5 - 10	15 - 20	-	-	15 - 20
Deep Sagar	5 - 10[24]	-	-	5 - 10	15 - 20	-	-	15 - 20
Jim Stewart, CBE	5 - 10[24]	-	-	5 - 10	15 - 20	-	-	15 - 20

[24] 15 – 20 on a full year equivalent basis.

Pension entitlements

Non-Executive Directors do not participate in the Company'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 note 21 to the financial statements.

Transfer values

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

Increase in transfer value less Directors' contributions

The real increase in CETV shows the increase over the year in the transfer value of the accrued benefits after deducting the Director's personal contributions to the scheme. Further details on Directors' remuneration are shown in note 8a to the financial statements.

Pension benefits for members of the Executive Committee

Current Executive Directors:	Accrued pension at age 60 at 31 March 2016 [25] £000	Related lump sum at 31 March 2016 [25] £000	Real increase in pension at age 60 £000	Real increase in lump sum at age 60 £'000
Sara Venning	15 - 20	7.5 - 10	2.5 - 5	7.5 - 10
Ronan Larkin	20 - 25	-	2.5 - 5	-
Sean McAleese	50 - 55	150 - 155	0 - 2.5	5 - 7.5
Current members of the Executive Committee (not Executive Directors):				
Bill Gowdy	10 - 15	30 - 35	0 - 2.5	2.5 - 5
Mark Ellesmere	15 - 20	5 - 7.5	0 - 2.5	5 - 7.5
Martin McIlwaine	35 - 40	120 - 125	0 - 2.5	0 - 2.5
Former Executive Director:				
George Butler	20 - 25	-	0 - 2.5	-

[25] Or date of leaving the Board if earlier.

Pension (CETV) benefits for members of the Executive Committee

Current Executive Directors:	CETV at 31 March 2016[26] £000	CETV at 31 March 2015[27] £000	Increase/(decrease) in transfer value less Director's contribution (net of inflation[28]) £000	Employer contribution (to nearest £100)
Sara Venning	381	319	51	38,100
Ronan Larkin	575	492	65	30,100
Sean McAleese	1,695	1,665	49	28,000
Current members of the Executive Committee (not Executive Directors):				
Bill Gowdy	328	302	32	24,600
Mark Ellesmere	483	414	52	28,300
Martin McIlwaine	1,311	1,327	(34)	16,000
Former Executive Director:				
George Butler	613	543	72	11,300

Sara Venning
Chief Executive
28 June 2016

[26]Based on accrued benefits at 31 March 2016 (or date of leaving the Board if earlier) and financial conditions as at 31 March 2016.
[27]Based on accrued benefits at 31 March 2015 (or date of joining the Board if later) and financial conditions as at 31 March 2016.
[28]CPI inflation of 1.2%.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each year. The Directors have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union. 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 Company and of the profit and loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements and the Directors' remuneration report comply with the Companies Act 2006 and the relevant provisions of the Water and Sewerage Services (Northern Ireland) Order 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of 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 United Kingdom 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 Company's performance, business model and strategy.

By order of the Board

Mark Ellesmere
Company Secretary
28 June 2016

Statutory accounts

Water mains laying at Donegal Pass, Belfast, Co Antrim.

Statement of financial position

	Note	**At 31 March 2016 £000**	At 31 March 2015 £000
Assets			
Property, plant and equipment	11	**2,734,593**	2,628,535
Investment properties	12	**6,148**	6,811
Intangible assets	13	**35,471**	37,267
Other investments	14	**27**	38
Total non-current assets		**2,776,239**	2,672,651
Inventories	16	**2,374**	2,276
Trade and other receivables	17	**21,248**	23,088
Unbilled revenue and prepayments		**11,812**	10,749
Cash and cash equivalents	18	**3,169**	949
Assets classified as held for sale	4	**848**	1,009
Total current assets		**39,451**	38,071
Total assets		**2,815,690**	2,710,722
Equity			
Share capital	19	**500,000**	500,000
Statutory distributable reserve*		**171,690**	171,690
Retained earnings*		**602,769**	521,750
Available for sale reserve*		**(64)**	(53)
Total equity attributable to owner of the Company		**1,274,395**	1,193,387
Liabilities			
Loans and borrowings	20	**1,192,113**	1,160,240
Other payables	24	**1,373**	1,273
Deferred income	22	**6,265**	6,607
Provisions	23	**3,054**	1,481
Deferred tax liabilities	15	**194,174**	195,656
Employee benefits	21	**7,171**	11,630
Total non-current liabilities		**1,404,150**	1,376,887
Loans and borrowings	20	**4,127**	3,420
Trade payables	24	**116,960**	119,420
Other payables	24	**10,621**	9,843
Deferred income	22	**2,684**	2,638
Provisions	23	**2,753**	5,127
Total current liabilities		**137,145**	140,448
Total liabilities		**1,541,295**	1,517,335
Total equity and liabilities		**2,815,690**	2,710,722

* Refer to Statement of changes in equity on page 63.

The financial statements were authorised for issue by the Board of Directors on 28 June 2016 and were signed on its behalf by:

Sara Venning
Chief Executive
28 June 2016

The notes on pages 66 to 102 form part of these financial statements.

Statement of comprehensive income

	Note	**Year to 31 March 2016 £000**	Year to 31 March 2015 £000
Revenue	5	**413,525**	425,598
Other income	6	**1,158**	899
Operating expenses	7	**(251,015)**	(233,106)
Research and development expenses		**(239)**	(297)
Results from operating activities		**163,429**	193,094
Finance income	9	**96**	234
Finance costs	9	**(64,384)**	(61,856)
Net finance costs		**(64,288)**	(61,622)
Profit before income tax		**99,141**	131,472
Income tax credit/(expense)	10	**2,320**	(24,129)
Profit for the year		**101,461**	107,343
Other comprehensive income			
Items that will never be reclassified to profit or loss: Defined benefit plan actuarial gains/(losses)	10	**4,294**	(11,081)
Items that are or may be reclassified to profit or loss: Available for sale shares - fair value (loss)/gain		**(11)**	25
Other comprehensive income for the period, net of income tax		**4,283**	(11,056)
Total comprehensive income for the period		**105,744**	96,287
Profit attributable to:			
Owner of the Company		**101,461**	107,343
Total comprehensive income attributable to:			
Owner of the Company		**105,744**	96,287

All profits relate to continuing operations.

The notes on pages 66 to 102 form part of these financial statements.

Statement of changes in equity

	Attributable to the owner of the Company					
	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Available for sale £000	Total equity £000
Balance at 1 April 2015	19	500,000	171,690	521,750	(53)	1,193,387
Total comprehensive income for the period						
Profit for the year		-	-	101,461	-	101,461
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial gains	21	-	-	5,348	-	5,348
Deferred tax arising on gains in defined benefit plan	15	-	-	(1,054)	-	(1,054)
Items that are or may be reclassified to profit or loss:						
Available for sale shares - fair value loss		-	-	-	(11)	(11)
Total other comprehensive income		-	-	4,294	(11)	4,283
Total comprehensive income for the period		-	-	105,755	(11)	105,744
Transactions with owner, recognised directly in equity						
Distributions to owner of the Company						
Dividends to owner of the Company	19	-	-	(24,736)	-	(24,736)
Balance at 31 March 2016		500,000	171,690	602,769	(64)	1,274,395
Dividends per share (GBP)						0.05

The notes on pages 66 to 102 form part of these financial statements.

Statement of changes in equity continued

	Attributable to the owner of the Company					
	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Available for sale £000	Total equity £000
Balance at 1 April 2014	19	500,000	171,690	449,031	(78)	1,120,643
Total comprehensive income for the period						
Profit for the year		-	-	107,343	-	107,343
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial losses	21	-	-	(13,851)	-	(13,851)
Deferred tax arising on losses in defined benefit plan	15	-	-	2,770	-	2,770
Items that are or may be reclassified to profit or loss:						
Available for sale shares - fair value gain		-	-	-	25	25
Total other comprehensive income		-	-	(11,081)	25	(11,056)
Total comprehensive income for the period		-	-	96,262	25	96,287
Transactions with owner, recognised directly in equity						
Distributions to owner of the Company						
Dividends to owner of the Company	19	-	-	(23,543)	-	(23,543)
Balance at 31 March 2015		500,000	171,690	521,750	(53)	1,193,387
Dividends per share (GBP)						0.05

The notes on pages 66 to 102 form part of these financial statements.

Statement of cash flows

	Note	**Year to 31 March 2016 £000**	Year to 31 March 2015 £000
Cash flows from operating activities			
Profit before tax		**99,141**	131,472
Adjustments for:			
Depreciation	11,12	**68,190**	60,745
Amortisation of intangible assets	13	**7,988**	7,086
Impairment losses on assets classified as held for resale		**532**	42
Notional income relating to adopted assets	5	**(32,721)**	(48,406)
Gain on sale of property, plant and equipment	6	**(799)**	(525)
Interest expense (net)	9	**64,288**	61,622
		206,619	212,036
Changes in:			
- inventories		**(98)**	(247)
- trade and other receivables		**1,815**	(3,701)
- unbilled revenue		**(1,063)**	(307)
- trade and other payables		**(11,006)**	15,594
- provisions		**(801)**	(4,382)
- excess of charge over cash pension contributions		**369**	1,219
Cash generated from operating activities		**195,835**	220,212
Cash flows from investing activities			
Interest received		**92**	80
Proceeds from sale of property, plant and equipment		**1,693**	1,046
Acquisition of property, plant and equipment, and intangible assets		**(136,580)**	(170,603)
Grants received		**5**	238
Net cash used in investing activities		**(134,790)**	(169,239)
Cash flows from financing activities			
Proceeds from borrowings		**36,000**	36,000
Payment of finance lease liabilities		**(3,420)**	(2,806)
Interest paid		**(66,669)**	(61,799)
Dividends paid	19	**(24,736)**	(23,543)
Tax paid		**-**	(576)
Net cash from financing activities		**(58,825)**	(52,724)
Net increase/(decrease) in cash and cash equivalents		**2,220**	(1,751)
Cash and cash equivalents at 1 April	18	**949**	2,700
Cash and cash equivalents at 31 March	18	**3,169**	949

The notes on pages 66 to 102 form part of these financial statements.

Notes to the Statutory accounts

1 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. The Company 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 (formerly known as the Department for Regional Development). The Department for Infrastructure was formed on the 9 May 2016 (see Note 31 Subsequent events).

The Annual Accounts make reference to the Department for Regional Development (DRD). Under the Departments Act (Northern Ireland) 2016 and The Departments (Transfer of Functions) Order (Northern Ireland) 2016 the number of NICS departments has reduced from 12 to 9 and in May 2016 the functions of the DRD transferred to the Department for Infrastructure (DfI). In relation to the Company this means that from May 2016 DfI has become sole Shareholder and provider of loan note borrowing and subsidy.

(b) Basis of preparation

Statement of compliance

The 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 Company's accounting policies, as set out below, have, unless otherwise stated, been consistently applied to all the years presented.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the defined benefit liability which is recognised as the net total of the plan assets less the present value of the defined benefit obligation, and the investments which are held at fair value through Other Comprehensive Income. The defined benefit pension liability may represent a material item in the statement of financial position (SOFP).

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2016. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Company operates as described below.

NI Water is subject to economic regulation rather than market competition. As a result, NI Water 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 receives funding by means of a subsidy provided by DfI. Due to the level of subsidy, NI Water is also designated as a NDPB and is subject to public sector spending rules i.e. Public Expenditure.

As required by the Licence, NI Water submitted a Business Plan to the Utility Regulator in March 2014 setting out its proposals for the price control period from 1 April 2015 to 31 March 2021 (PC15). The Utility Regulator published a Draft Determination for consultation in July 2014 and a Final Determination in December 2014. The Final Determination establishes the funding required by NI Water to meet Departmental targets contained within the Social and Environmental Guidance and requires NI Water to deliver enhanced regulatory outputs, continued investment, improvement in service and efficiencies.

On 10 February 2015, NI Water advised the Utility Regulator that the Board would, on balance, have been willing to accept the PC15 Final Determination subject to Public Expenditure funding to the levels established by the PC15 Final Determination, an appropriate risk mitigation mechanism and other flexibilities. However a significant shortfall in Public Expenditure funding in 2015/16 and no clarity of funding for the period beyond 2015/16, meant the Board had no option but to reject the PC15 Final Determination in the circumstances.

1 Accounting policies continued

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

DfI has approved the 2016/17 budget allocation for NI Water. However, as the allocation falls below PC15 Final Determination, a similar process was undertaken to agree changes to 2016/17 regulatory outputs. On 1 June 2016, the Utility Regulator confirmed acceptance of the Company proposals for adjusted outputs for 2016/17. 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.

The Directors have formed a judgement at the time of approving the financial statements, that the Company will be able to reach an agreement with the Utility Regulator and hence to apply adequate resources to continue in operational existence for the foreseeable future. As such, these conditions do not cast a significant doubt on the Company's ability to continue as a going concern.

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 3 (liquidity risk).

(d) Functional and presentation currency

These 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

There were no additional standards, amendments and interpretations that had a material impact of the Company's financial statements during the year. The following standards, amendments and interpretations were effective for accounting periods beginning on or after 1 April 2015 and these have been adopted in the Company financial statements:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRS's 2010 – 2012 Cycle and 2011-2013 Cycle

None of the above had a significant impact on the Company.

(f) Critical accounting estimates and judgements

The preparation of the 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 on-going 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 17 – trade and other receivables;
- note 21 – measurement of defined benefit pension obligations;
- notes 23 and 28 – provisions and contingencies;
- note 2(q) and note 25 – measurement of fair values; and
- note 15 – deferred taxation

2 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) Financial instruments

(i) Non-derivative financial assets

The 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 Company becomes a party to the contractual provisions of the instrument. The 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 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 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 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 17).

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 14). 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 (for 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 Company becomes a party to the contractual provisions of the instrument. The 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 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 Company has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

(iii) 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.

(b) 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 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 11). 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.

2 Significant accounting policies continued

(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 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.

(iv) Infrastructure assets

The infrastructure assets comprise a network of water and wastewater systems including mains, sewers, impounding and pumped raw 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 Company identified the carrying value of these assets as at the inception of the 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 Statement of Comprehensive Income (SOCI).

(v) Transfers of infrastructure assets from customers (adopted assets)

The 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 on-going access to a supply of services. In some cases, the 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 on-going 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 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

(c) 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 2(h) for further details).

2 Significant accounting policies continued

(d) 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 Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure 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 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

(e) Leased assets

Leases in terms of which the 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.

(f) 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.

2 Significant accounting policies continued

(g) Impairment

(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 Company on terms that the 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 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 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.

(iii) Non-financial assets

The carrying amounts of the Company's non-financial assets, 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 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.

(h) 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 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 assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the 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.

2 Significant accounting policies continued

(i) Employee benefits

(i) 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 benefits, 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.

(ii) 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 j below. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(iii) 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 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.

(j) 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.

(k) 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 wastewater 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 DRD primarily relating to the deferment of the introduction of domestic charges that were planned for 1 April 2007; charges to customers for water and wastewater services and related services; road drainage income from DRD; 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.

(l) Government grants

New government grants and legacy grants to DRD Water Service 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 DRD 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 5). A capital subsidy is received from DRD 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 related parties note 29).

(m) 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.

2 Significant accounting policies continued

(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.

(n) 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 acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in 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 reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is not recognised for temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss. 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 is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) 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.

(q) 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:

2 Significant accounting policies continued

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in note 25 – financial instruments.

(r) New standards, amendments to or interpretations of standards not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2015 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements except for:

- IFRS 9 Financial Instruments, which is likely to become mandatory (subject to EU endorsement) for the Company's 2019 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of this impact has not yet been determined;
- IFRS 15 Revenue from contracts with customers (Mandatory for year commencing 1 January 2018)*. This standard may have an impact on the accounting for adopted assets but management has not yet reached a conclusion on this aspect; and
- IFRS 16: Leases (Mandatory for the year commencing on or after 1 January 2019)*.

The standard and interpretations not adopted are outlined below:

- Amendments to IFRS 11 Accounting for acquisition of interests in joint ventures (Mandatory for the year commencing on or after 1 January 2016);
- Amendments to IAS 16 and IAS 38 clarification of acceptable methods of depreciation and amortisation (Mandatory for year commencing 1 January 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Bearer Plants (Mandatory for year commencing 1 January 2016);
- Amendments to IAS 27 Equity method in Separate Financial Statements (Mandatory for year commencing 1 January 2016);
- Amendments to IAS 1: Disclosure Initiative (Mandatory for year commencing 1 January 2016);
- Annual Improvements to IFRSs 2012-2014 Cycle (Mandatory for year commencing 1 January 2016);
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the consolidation exemption (Mandatory for year commencing 1 January 2016)*;
- IFRS 14 Regulatory Deferral Accounts (Mandatory for the year commencing on or after 1 January 2016)*;
- Amendments to IAS 7: Disclosure Initiative (Mandatory for year commencing on or after 1 January 2017)*;
- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (Mandatory for year commencing on or after 1 January 2017)*;
- IFRS 9 Financial Instruments – 2009 and subsequent amendments in 2010 and 2013 – (Mandatory for the year commencing on or after 1 January 2018)*; and
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (Deferred indefinitely)*.

*Not yet EU endorsed. The effective dates above refer to the EU effective dates to the extent they have been amended and otherwise as IASB effective dates.

3 Financial risk management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk;
- interest rate risk; and
- foreign exchange risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital and operational risk. Further quantitative disclosures are included throughout these financial statements. These risks are managed within the risk management framework of the Company as described below.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment deposits. Credit control policies and procedures are determined by the Company and applied by a third party collection agent. The Company manages its credit risk by carrying out a regular review of receivables and by prompt follow-up of unpaid invoices. Depending upon the customers' circumstances, repayments plans can be offered up to a period of 12 months.

Trade and other receivables

NI Water has a statutory obligation to provide water and sewerage services to customers within its region. Approximately 69% of the Company's revenue is in the form of a customer subsidy provided by DRD*. This primarily relates to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The credit risk in relation to the remaining 31% is mitigated by the credit control policies outlined above. Excluding the Company's subsidy from DRD*, there is no concentration of credit risk with respect to its trade receivables. Further information on aging of receivables and bad debt provision is set out in note 25.

Investment deposits

In accordance with the Shareholder Governance Arrangements the main banking services were transacted through the Northern Ireland Civil Service contract. As approved by DRD*, and by DFP**, other banking relationships have been instigated to manage financial counterparty risks arising from deposits of short term funds available for investment. Financial counterparty risks are managed through the use of credit limits and continuous monitoring procedures. Treasury policy is as follows:

- deposits with banks other than main relationship bank (MRB) only placed if other bank holds investment grade credit rating issued by main credit rating agency, i.e., Standard and Poor's, Moody's or Fitch, (the MRB is Danske Bank);
- maximum exposure of £30m in other banks; and
- no more than 50% of funds held in any bank other than MRB, which may hold up to 100% of funds.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Treasury Function employs a continuous forecasting and monitoring process to manage cash, funding and liquidity risks. The Treasury Function invests any short term funds available for deposit based on its forecasted liquidity requirements and in accordance with the Shareholder governance arrangements and the Company's treasury policies. During the year the Company maintained a £20m working capital facility provided by DRD* for the period to 31 March 2016. Borrowings on the facility are repayable on demand. Interest is payable at a floating rate of the London Interbank Offered Rate (LIBOR) + 0.35%. The facility outlined above was not utilised at 31 March 2016. The Company's net current liabilities can be met using the capital loan note facility (see note 20) and working capital facility provided by DRD*. A capital loan arrangement and a £20m working capital facility, extending to 31 March 2021, are in place with DRD*. Further information in respect of liquidity risk is set out in note 25.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the 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.

*Now operating as DfI.
** Now operating as DoF.

3 Financial risk management continued

Interest Rate Risk

Interest rates on borrowings at 31 March 2016 were at fixed rates. The 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 rates on fixed term deposits are fixed for the period of investment. The average period of deposit is less than one month. The Company also maintains instant access investment accounts on which interest is earned at rates based on the Bank of England Base rate.

Foreign Exchange Risk

The Company is not exposed to significant foreign exchange transactions. The Company is engaged in two EU Interreg applications denominated in Euros which, if successful, may expose it to foreign exchange risk.

Capital management

The Company deems its capital to consist 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 12 to 15 and 95 to 99.

4 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 2017 these properties have been classified as held for sale in current assets.

The movement in non-current assets held for sale can be shown as follows:

	At 31 March 2016	At 31 March 2015
	£000	£000
Balance at 1 April	**1,009**	853
Net transfer from investment properties	**390**	695
Net transfer from PPE	**403**	-
Impairment/Depreciation	**(105)**	(39)
Disposals	**(849)**	(500)
Balance at 31 March	**848**	1,009

A gain of £255k (2015: £164k) on disposal of non-current assets held for sale is included within 'Other income' in the SOCI.

5 Revenue

	Year to 31 March 2016	Year to 31 March 2015
	£000	£000
Customer subsidy provided by DRD	**283,450**	279,624
Customer income	**69,344**	71,320
Road drainage income provided by DRD	**20,030**	19,154
Transfers of assets from customers	**32,721**	48,406
Connection and infrastructure charges	**6,113**	5,463
Other third party contributions	**1,867**	1,631
	413,525	425,598

Customer subsidy provided by DRD

The customer subsidy provided by DRD 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.

5 Revenue continued

Road drainage income provided by DRD

This revenue from DRD 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

The Company receives items of property, plant, and equipment from customers, e.g., sewer pipes, pumping stations etc. from property developers, which it must then use either to connect customers to the network or to provide customers with on-going access to a supply of services. The deemed capital value of the transferred asset is included as revenue.

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.

6 Other income

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Net gain on sale of property, plant and equipment	**799**	525
Amortisation of deferred grants and contributions	**359**	374
	1,158	899

7 Operating expenses

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Depreciation and other amounts written off tangible and intangible assets	**76,710**	67,873
Hire and contracted services	**55,772**	57,453
Staff costs	**57,348**	54,767
Power	**30,042**	32,682
Rates*	**26,547**	13,881
Raw materials and consumables	**8,710**	8,765
Sundry operating expenses	**8,612**	9,874
Own work capitalised**	**(12,726)**	(12,189)
Total operating expenses	**251,015**	233,106

* Land and Property Services (LPS) carried out a rates revaluation in 2015 which led to a very significant increase in the Net Annual Values (NAVs) and rates for Company properties.

** Own work capitalised includes payroll costs (see note 8), materials and overheads.

Refer to page 84 for expenditure on research and development.

The net increase in inventories for the year was £98k (2015: £247k 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 12.

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Impairment loss on investment properties/assets classified as held for sale/ PPE	**532**	96
Impairment (gain)/loss realised on trade receivables	**(263)**	837
	269	933

7 Operating expenses continued

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Auditors' remuneration:		
Audit of statutory financial statements	**54**	54
Audit of regulatory financial statements	**17**	17
Audit of whole of government account submission	**-**	1
Other assurance opinions	**22**	22
	93	94
Amounts receivable by the auditor in respect of:		
Other services relating to taxation	**-**	-
Accounting and regulatory advice	**11**	11
	11	11
Total fees paid to the auditor	**104**	105

8 Personnel numbers and expenses

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

	No. of employees Year to 31 March 2016	No. of employees Year to 31 March 2015
Directors	**12**	10
Non-industrial staff	**765**	754
Industrial staff	**471**	489
	1,248	1,253

The gender of persons employed by the Company (including Directors) during the year ended 31 December 2015, analysed by category, was as follows*:

	No. of employees Year to 31 December 2016			No. of employees Year to 31 December 2015		
	Male	**Female**	**Total**	Male	Female	Total
Directors and senior managers	**46**	**15**	**61**	45	12	57
Non-industrial staff	**470**	**214**	**684**	447	217	664
Industrial staff	**470**	**7**	**477**	504	7	511
	986	**236**	**1,222**	996	236	1,232

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

The aggregate payroll costs of these persons were as follows:

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Wages and salaries	**43,056**	39,818
Social security costs	**3,477**	2,999
Other pension costs**	**10,815**	11,950
	57,348	54,767

An amount of £10,991k (2015: £10,468k) of the above payroll costs has been capitalised as it relates to work carried out by the Company that adds to the value of property, plant and equipment and intangible assets.

**Excluding finance cost shown in note 21.

8a Key management personnel short-term employee benefits

Detailed information concerning key management personnel's remuneration, bonus payments and pensions is included in the Directors' remuneration report on pages 54 to 58. Key management includes all Board and Executive Committee members.

In summary, key management personnel compensation comprised:

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Short-term employee benefits	**824**	813
Post-employment benefits	**176**	184
	1,000	997

The emoluments of the highest paid Director were £151k (2015: £147k).

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.

8b 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 Early Retirement and Voluntary Severance (VER/VS) schemes which were used to facilitate the targeted reduction in headcount. The VER/VS 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 2016**	**Number of other departures agreed 31 March 2016**	**Total number of exit packages by cost band 31 March 2016**	Number of compulsory redundancies 31 March 2015	Number of other departures agreed 31 March 2015 (restated)	Total number of exit packages by cost band 31 March 2015 (restated)
0 – 10	-	1	1	-	2	2
10 – 25	-	11	11	-	7	7
25 – 50	-	1	1	-	1	1
50 – 100	-	1	1	-	-	-
Above 100	-	-	-	-	-	-
Total number	-	14	14	-	10	10
Total cost (£'000)	-	312	312	-	201	201

8c Off-payroll engagements

In accordance with DFP disclosure guidance - FD (DFP) 04/16, the Company can confirm that there were seven 'off payroll' engagements at a cost of over £58,200 per annum in place during 2015/16.

	Year to 31 March 2016 number	Year to 31 March 2015 number
Number of engagements as at 1 April	**5**	2
Number of new engagements during the year	**2**	4
The number of engagements that have come to an end during the year	**(5)**	(1)
Number of engagements as at 31 March	**2**	5

No procurement exercises relating to off payroll engagements commenced after 1 October 2014.

9 Finance income and finance costs

Recognised in profit or loss

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Interest income on bank deposits	**96**	79
Finance income on pension scheme	**-**	155
Net finance income	**96**	234
Financing charges on pension scheme	**(400)**	-
Interest expense on financial liabilities measured at amortised cost	**(43,883)**	(41,481)
Interest on PPP financing arrangements	**(20,101)**	(20,375)
Finance costs	**(64,384)**	(61,856)
Net finance costs recognised in profit or loss	**(64,288)**	(61,622)

All finance income and finance costs above relate to assets/(liabilities) not at fair value through profit or loss. Of the above amount £46,537k (2015: £45,312k) was payable to DRD in relation to loan notes issued (see note 20 'Loans and borrowings' and note 29 'Related parties'). Interest of £2,721k was capitalised in the year (2015: £3,886k).

10 Income tax expense

	Year to 31 March 2016 £000	Year to 31 March 2015 £000
Tax recognised in profit or loss		
Current tax expense		
Current year	(216)	(198)
Adjustment for prior years	-	106
	(216)	(92)

		Year to 31 March 2016 £000	Year to 31 March 2015 £000
Deferred tax			
(Origination) and reversal of temporary differences		**(19,398)**	(25,844)
Adjustment to prior years		**15**	1,807
Reduction in tax rate (20% to 18%) (2015: no rate change)		**21,919**	-
	15	**2,536**	(24,037)
Total income tax expense/(credit)	15	**2,320**	(24,129)

Tax recognised in other comprehensive income

For the year ended 31 March

	Year to 31 March 2016			Year to 31 March 2015		
	Before tax £000	**Tax (expense) / benefit £000**	**Net of tax £000**	Before tax £000	Tax (expense) / benefit £000	Net of tax £000
Defined benefit plan actuarial gains/(losses)	**5,348**	**(1,054)**	**4,294**	(13,851)	2,770	(11,081)
	5,348	**(1,054)**	**4,294**	(13,851)	2,770	(11,081)

10 Income tax expense continued

Reconciliation of effective tax rate

	%	Year to 31 March 2016 £000	%	Year to 31 March 2015 £000
Profit for the year		**101,461**		107,343
Total income tax (credit)/expense		**(2,320)**		24,129
Profit before income tax		**99,141**		131,472
Income tax using the Company's domestic tax rate	**20.0**	**19,828**	21.0	27,609
Reduction in tax rate	**(22.10)**	**(21,919)**	(1.0)	(1,322)
Non-deductible expenses	**(0.22)**	**(214)**	(0.2)	(245)
Adjustment to prior years	**(0.02)**	**(15)**	(1.4)	(1,913)
	(2.34)	**(2,320)**	18.4	24,129

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 deferred tax for 2015/16 has been calculated at the appropriate tax rate which is expected to apply when assets are realised or liabilities are settled.

In the 2016 Budget the Chancellor announced that from April 2017 there will be a restriction on the use of brought forward losses. The restriction will affect Companies that were previously loss making that become profit making, and have profits over £5m. This measure may have tax accounting implications if there is an associated change in the value of deferred tax assets arising on corporation tax losses deemed recoverable.

11 Property, plant and equipment

	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**
Cost or deemed cost						
Balance at 1 April 2014	72,819	1,517,286	1,000,792	14,370	155,388	**2,760,655**
Reclassifications**	76	-	(76)	-	-	**-**
Additions	-	2,677	-	-	153,985	**156,662**
Customer contributions	4	46,502	1,900	-	-	**48,406**
Disposals	(860)	(305)	(132)	(585)	-	**(1,882)**
Transfers	1,715	68,177	119,344	1,309	(190,545)	**-**
Transfer to investment properties	(83)	-	-	-	-	**(83)**
Balance at 31 March 2015	**73,671**	**1,634,337**	**1,121,828**	**15,094**	**118,828**	**2,963,758**
Balance at 1 April 2015	73,671	1,634,337	1,121,828	15,094	118,828	**2,963,758**
Reclassifications**	-	-	223	-	(2,166)	**(1,943)**
Additions	-	2,754	-	-	141,324	**144,078**
Customer contributions	1	32,435	285	-	-	**32,721**
Disposals	(63)	(1,212)	(75)	(1,041)	-	**(2,391)**
Transfers	1,990	80,433	59,557	997	(142,977)	**-**
Transfer to assets held for sale	(407)	-	(36)	-	-	**(443)**
Balance at 31 March 2016	**75,192**	**1,748,747**	**1,181,782**	**15,050**	**115,009**	**3,135,780**

* Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.
** Reclassifications from/to Intangible Assets – see note 13.

11 Property, plant and equipment continued

	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**
Depreciation and impairment losses						
Balance at 1 April 2014	(3,768)	(79,368)	(184,655)	(8,730)	-	**(276,521)**
Reclassifications	-	574	(574)	-	-	**-**
Depreciation for the year	(1,029)	(14,549)	(43,316)	(1,681)	-	**(60,575)**
Disposals	858	305	133	577	-	**1,873**
Balance at 31 March 2015	**(3,939)**	**(93,038)**	**(228,412)**	**(9,834)**	**-**	**(335,223)**
Balance at 1 April 2015	(3,939)	(93,038)	(228,412)	(9,834)	-	**(335,223)**
Depreciation for the year	(1,273)	(16,231)	(49,261)	(1,582)	-	**(68,347)**
Disposals	26	1,212	75	1,030	-	**2,343**
Transfer to assets held for sale	27	-	13	-	-	**40**
Balance at 31 March 2016	**(5,159)**	**(108,057)**	**(277,585)**	**(10,386)**	**-**	**(401,187)**
Carrying amounts						
At 31 March 2015	69,732	1,541,299	893,416	5,260	118,828	2,628,535
At 31 March 2016	**70,033**	**1,640,690**	**904,197**	**4,664**	**115,009**	**2,734,593**

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

All surplus land and buildings have been transferred to investment properties and non-current assets held for sale (see note 12).

Borrowing costs capitalisation

Included in the total net book value of property, plant and machinery is £2,721k (2015: £3,886k) of borrowing costs capitalised during the period using a capitalisation rate of 4.34% (2015: 4.45%).

Leased assets

	At 31 March 2016 £000	**At 31 March 2015 £000**
The net book value of land and buildings comprises:		
Freehold	**68,970**	68,666
Leasehold - long and short term	**1,063**	1,066
Total	**70,033**	69,732

	At 31 March 2016 £000	At 31 March 2015 £000
Land within this total is not depreciated and is shown as follows:		
Freehold	**17,588**	17,851

PPP assets

The cost and net book value of PPP assets included in property, plant and equipment are disclosed in note 30.

Commitments under operating leases are shown in note 26.

12 Investment properties

	Total (£000)
Cost or deemed cost	
Balance at 1 April 2014	20,656
Reclassification from non-current assets held for sale	69
Disposals	(206)
Transfers from property, plant and equipment	91
Transfers to property, plant and equipment	(8)
Transfers to non-current assets held for sale	(1,088)
Balance at 31 March 2015	**19,514**
Balance at 1 April 2015	19,514
Reclassification from non-current assets held for sale	42
Disposals	(22)
Transfers to non-current assets held for sale	(900)
Balance at 31 March 2016	**18,634**
Accumulated depreciation and impairment losses	
Balance at 1 April 2014	(13,052)
Disposals	195
Impairment loss	(61)
Reclassification to non-current assets held for sale	324
Depreciation for the year	(109)
Balance at 31 March 2015	**(12,703)**
Balance at 1 April 2015	(12,703)
Disposals	19
Impairment loss	(260)
Reclassification to non-current assets held for sale	492
Reclassification from non-current assets held for sale	(24)
Depreciation for the year	(10)
Balance at 31 March 2016	**(12,486)**
Carrying amounts	
At 31 March 2015	6,811
At 31 March 2016	**6,148**

Impairment loss

During the year ended 31 March 2016, the Company recognised an impairment loss of £260k (2015: £61k) relating to one surplus property asset. The impairment arose following a professional valuation of six different sites which are deemed to be surplus but do not meet the criteria of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. It was found that, due to movements in the property market, the carrying amount for one site was greater than the fair value. As a result, the land and buildings asset was impaired so that the carrying amount represents amortised cost.

13 Intangible assets

	Computer programs and software £000	Assets in the course of construction £000	**Total £000**
Cost			
Balance at 1 April 2014	52,120	9,279	**61,399**
Acquisitions	-	6,766	**6,766**
Transfers	11,445	(11,445)	**-**
Balance at 31 March 2015	63,565	4,600	**68,165**
Balance at 1 April 2015	63,565	4,600	**68,165**
Reclassification*	(223)	2,166	**1,943**
Revised balance at 1 April 2015	63,342	6,766	**70,108**
Acquisitions	-	4,249	**4,249**
Transfers	10,190	(10,190)	**-**
Balance at 31 March 2016	73,532	825	**74,357**
Amortisation and impairment losses			
Balance at 1 April 2014	(23,812)	-	**(23,812)**
Amortisation for the year	(7,086)	-	**(7,086)**
Balance at 31 March 2015	(30,898)	-	**(30,898)**
Balance at 1 April 2015	(30,898)	-	**(30,898)**
Amortisation for the year	(7,988)	-	**(7,988)**
Balance at 31 March 2016	(38,886)	-	**(38,886)**
Carrying amounts			
At 31 March 2015	32,667	4,600	37,267
At 31 March 2016	**34,646**	**825**	**35,471**

*Revised opening balance due to reclassifications between Intangibles and Property, plant and equipment.

Assets in the course of construction (AICC)

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

£239k (2015: £297k) of research and development expenditure was recognised as an expense during the period.

The following intangible assets are deemed to be material to the Company's financial statements:

Description	Carrying amount	Remaining amortisation period (years)
MC2 implementation (mobile work management)	£ 3.4m	6.5
Watermains studies	£ 3.8m	7
CBC implementation (customer billing)	£ 2.1m	6
Costing solution development	£ 0.9m	5
Asset data acquisition and improvement	£ 2.7m	8
NIAMP 4 (asset mangement plan)	£ 0.8m	9
Metering related software	£ 1.0m	6
Drainage area plans	£ 0.9m	4

The contractual commitments for the acquisition of intangible assets as at 31 March 2016 are £3,271k (2015: £3,883k).

14 Other investments

	At 31 March 2016 £000	At 31 March 2015 £000
Non-current investments		
15,278 ordinary 'A' shares (re-valued at 31 March 2016 at market value £1.75 per share)	**27**	38
	27	38

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 2016 was £1.75 per ordinary share (2015: £2.48). The fair value adjustment of £11k has been charged to Other Comprehensive Income and has been credited to an Available for Sale reserve.

15 Deferred tax assets and liabilities

The following are the deferred tax assets and liabilities recognised by the 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:

	Assets		**Liabilities**		**Net**	
	At 31 March 2016 £000	At 31 March 2015 £000	**At 31 March 2016 £000**	At 31 March 2015 £000	**At 31 March 2016 £000**	At 31 March 2015 £000
Property, plant and equipment	**-**	-	**154,314**	174,140	**154,314**	174,140
Transfers of assets from customers*	**-**	-	**59,591**	60,123	**59,591**	60,123
Intangible assets	**(436)**	-	**-**	1,114	**(436)**	1,114
Employee benefits	**(1,291)**	(2,326)	**-**	-	**(1,291)**	(2,326)
Provisions	**(769)**	(272)	**-**	-	**(769)**	(272)
Tax losses carried forward	**(17,235)**	(37,123)	**-**	-	**(17,235)**	(37,123)
Net tax (assets)/liabilities	**(19,731)**	(39,721)	**213,905**	235,377	**194,174**	195,656

Movement in deferred tax balance during the year

	Balance at 31 March 2015 £000	Recognised in profit £000	Recognised in other comprehensive income £000	Reclassification £000	**Balance at 31 March 2016 £000**
Property, plant and equipment	174,140	(1,492)	-	(18,334)	**154,314**
Transfers of assets from customers*	60,123	(532)	-	-	**59,591**
Intangible assets	1,114	(1,550)	-	-	**(436)**
Employee benefits	(2,326)	(19)	1,054	-	**(1,291)**
Provisions	(272)	(497)	-	-	**(769)**
Tax losses carried forward	(37,123)	1,554	-	18,334	**(17,235)**
	195,656	(2,536)	1,054	-	**194,174**

The impact on the deferred tax liability arising from future changes in the underlying tax rate is disclosed in note 10.

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

16 Inventories

	At 31 March 2016 £000	At 31 March 2015 £000
Raw materials and consumables	**2,374**	2,276
Work in progress	**-**	-
	2,374	2,276

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

During the year raw materials, consumables and work in progress issued from stores and recognised within operating costs amounted to £397k (2015: £351k). The inventory held in stores is a component of total inventories. In the year ending 31 March 2016 the write-down of inventories to net realisable value amounted to £60k (2015: £60k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2015: £60k). The write-downs are included in operating expenses.

17 Trade and other receivables

	At 31 March 2016 £000	At 31 March 2015 £000
Trade and other receivables from related parties (see note 29)	**1,669**	1,554
Trade receivables	**9,855**	11,335
Other receivables	**9,724**	10,199
	21,248	23,088
Current	**21,248**	23,088

At 31 March 2016 other receivables include VAT receivable of £5,195k (2015: £6,200k).

18 Cash and cash equivalents

	At 31 March 2016 £000	At 31 March 2015 £000
Bank balances	**2,169**	929
Call deposits	**1,000**	20
Cash and cash equivalents	**3,169**	949

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in note 25.

19 Capital and reserves

Share capital

	Ordinary shares	
	At 31 March 2016	At 31 March 2015
	£000	£000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000

Ordinary shares

At 31 March 2016 the authorised share capital comprised 500 million ordinary shares (2015: 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.

	Year to 31 March 2016	Year to 31 March 2015
	£000	£000
4.95 pence per allotted ordinary share (2015: 4.71 pence)	**24,736**	23,543

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

20 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. For more information about the Company's exposure to interest rate and liquidity risk, see note 25.

	At 31 March 2016 £000	At 31 March 2015 £000
Non-current liabilities		
Capital loan notes	**983,560**	947,560
Finance lease liabilities	**208,553**	212,680
	1,192,113	1,160,240
Current liabilities		
Current portion of finance lease liabilities	**4,127**	3,420
	4,127	3,420

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			At 31 March 2016		At 31 March 2015	
	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	320,000	320,000
PPP finance lease liabilities – Alpha	5.81%	2031	92,500	92,500	94,388	94,388
PPP finance lease liabilities – Omega	3.67%	2032	116,512	116,512	117,848	117,848
PPP finance lease liabilities – Kinnegar	3.99%	2024	3,668	3,668	3,864	3,864
			1,196,240	**1,196,240**	1,163,660	1,163,660

The capital loan notes (denominated in GBP) have been issued under the instrument constituting £1,280,200k Fixed Coupon Unsecured loan notes 2027. During the year to 31 March 2016, £36m (2015: £36m) of loan notes were issued under this instrument. Capital loan notes are issued to DRD* and are repayable in full in 2027. 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 1.63% to 4.42%.

*Now operating as DfI

Finance lease liabilities

Finance lease liabilities relate to PPP contracts outlined in note 30. Finance lease liabilities are payable as follows:

	At 31 March 2016			At 31 March 2015		
	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	**23,882**	**19,755**	**4,127**	23,520	20,100	3,420
Between one and five years	**98,918**	**73,854**	**25,064**	97,501	76,128	21,373
More than 5 years	**295,550**	**112,061**	**183,489**	320,848	129,541	191,307
	418,350	**205,670**	**212,680**	441,869	225,769	216,100

21 Employee benefits

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. The Scheme has undergone a number of changes as at 1 April 2015, with the benefits for service after that date being very broadly in line with those being provided by the PCSPS (NI). In particular, for the majority of members, benefits for service after 1 April 2015 are based on a career average structure, with benefits for service before that date largely being provided on a final salary basis. Some members, dependant on their age, are 'protected' from most of the changes and their benefits after 1 April 2015 will continue to accrue on a final salary basis. 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 2017/18 onwards. The 2015/16 pension costs include a past service net credit of approximately £2m arising because of changes to the Scheme commutation factors and late retirement uplifts which took effect from 1 April 2015. A past service cost of approximately £0.4m has also been included in the pension costs due to a change to the Scheme in relation to the removal of the cap on overtime in relation to pension benefits.

Significant assumptions used in this disclosure:

Weighted-average assumptions to determine benefit obligation

	Conditions at 31 March 2016	Conditions at 31 March 2015
Rate of increase in salaries	**1.95% for 4 yrs., 2.95% thereafter**	2% for 5 yrs., 3% thereafter
Rate of increase in pensions in payment and deferred pensions	**2.95%**	3.00%
Discount rate	**3.70%**	3.40%
Inflation assumption - RPI	**2.95%**	3.00%
Inflation assumption - CPI	**1.95%**	2.00%

Composition of the Scheme

The scheme is open to new entrants and therefore the service cost as a percentage of pensionable salaries is expected to remain 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 2016 for IAS19 purposes on an approximate basis.

Assumed life expectancies on retirement at age 60

	31 March 2016				31 March 2015			
	Non-industrial		**Industrial**		Non-industrial		Industrial	
	Male	**Female**	**Male**	**Female**	Male	Female	Male	Female
Retiring today (member aged 60)	**28.0**	**30.2**	**26.2**	**28.4**	27.9	30.1	26.1	28.3
Retiring in 20 years (member age 40 today)	**30.4**	**32.6**	**28.6**	**30.8**	30.3	32.5	28.5	30.6

The weighted-average target asset allocations were as follows:

	Total scheme assets at 31 March 2016	Total scheme assets at 31 March 2015
Asset category		
a. Equity instruments	**27.5%**	27.5%
b. Debt instruments		
(i) Corporate bonds	**15.0%**	15.0%
(ii) Gilts	**25.0%**	25.0%
c. Property	**10.0%**	10.0%
d. Other	**22.5%**	22.5%
Total	**100.0%**	100.0%

21 Employee benefits continued

Fair value of plan assets

	Total scheme assets at 31 March 2016 £000	Total scheme assets at 31 March 2015 £000
a. Equities	**60,998**	59,871
b. Debt instruments		
(i) Corporate bonds	**27,831**	26,447
(ii) Gilts	**55,455**	54,588
c. Property	**21,638**	20,165
d. Other	**41,640**	43,042
Total market value of assets	**207,562**	204,113

The Scheme's overall allocation to investment in equities is approximately 9% UK and 21% in overseas equities. The investments shown as 'Other' includes Global Tactical Asset Allocation and Diversified Growth 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 2016 £000	Total at 31 March 2015 £000
Actives	**143,917**	149,888
Vested deferreds	**16,362**	13,974
Retirees	**54,454**	51,881
Total defined benefit obligation	**214,733**	215,743

Change in the fair value of plan assets

	Total year to 31 March 2016 £000	Total year to 31 March 2015 £000
Fair value of plan assets at end of prior year	**204,113**	170,993
Movement in year		
Interest income	**7,006**	8,018
Contributions by plan participants	**1,083**	881
Contributions by employer	**10,326**	10,536
Actuarial (loss)/gain	**(10,312)**	17,328
Benefits paid	**(3,885)**	(2,901)
Administration expenses paid from plan assets	**(540)**	(520)
Insurance premiums for risk benefits	**(229)**	(222)
	207,562	204,113

21 Employee benefits continued

Analysis of the present value of the defined benefit obligations

	Total year to 31 March 2016 £000	Total year to 31 March 2015 £000
At the beginning of the year	**215,743**	167,513
Movement in year		
Current service cost	**11,175**	10,190
Interest expense	**7,406**	7,863
Past service costs	**(1,129)**	1,018
Remeasurements:		
a. Effect of changes in demographic assumptions	**-**	(1,316)
b. Effect of changes in financial assumptions	**(15,660)**	28,429
c. Effect of experience adjustments	**-**	4,066
Contributions by plan participants	**1,083**	881
Benefits paid	**(3,885)**	(2,901)
	214,733	215,743

Amounts recognised in the statement of financial position

	Total year to 31 March 2016 £000	Total year to 31 March 2015 £000
Defined benefit obligation	**(214,733)**	(215,743)
Fair value of plan assets	**207,562**	204,113
Deficit in the scheme – pension liability	**(7,171)**	(11,630)
Related deferred tax asset	**1,291**	2,326
Net pension liability	**(5,880)**	(9,304)

Components of defined benefit cost

	Total year to 31 March 2016 £000	Total year to 31 March 2015 £000
Service cost		
Current service costs (operating costs - staff costs)	**11,175**	10,190
Past service costs (operating costs - staff costs)	**(1,129)**	1,018
Total service cost	**10,046**	11,208
Net interest (income)/cost:		
Interest expense	**7,406**	7,863
Interest income	**(7,006)**	(8,018)
Net interest (income)/cost	**400**	(155)
Administration expenses and taxes	**769**	742
Defined benefit cost included in profit	**11,215**	11,795

21 Employee benefits continued

	Total year to 31 March 2016 £000	Total year to 31 March 2015 £000
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	**-**	(1,316)
Effect of changes in financial assumptions	**(15,660)**	28,429
Effect of experience adjustments	**-**	4,066
Return on plan assets excluding interest income	**10,312**	(17,328)
Total remeasurements included in Other Comprehensive Income	**(5,348)**	13,851
Total defined benefit cost recognised in SOCI	**5,867**	25,646

Net defined benefit liability/(asset) reconciliation

	Total year to 31 March 2016 £000	Total year to 31 March 2015 £000
Opening defined benefit liability/(asset)	**11,630**	(3,480)
Defined benefit cost included in profit	**11,166**	11,795
Total measurements included in Other Comprehensive Income	**(5,348)**	13,851
Cashflows – employer contributions	**(10,277)**	(10,536)
Closing defined benefit liability	**7,171**	11,630
Actual return on plan assets	**(3,257)**	25,346

During the year, many of the global investment markets fell in value so overall investment returns on most major asset classes were negative. This has impacted on the investment returns achieved by the NIWLPS, which were a negative £3.3m (equivalent to a return of about -1.6%).

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 2015/16 %	Change in liability 2015/16 £000	Change in liability 2014/15 %	Change in liability 2014/15 £000
+ or - 0.25% in discount rate	**5.8**	**12,400**	6.2	13,300
+ or - 0.25% in rate of inflation	**5.1**	**10,900**	5.1	11,000
+ or - 0.25% in salary inflation	**1.3**	**2,700**	1.3	2,700
Increase in life expectancy of 1 year	**2.4**	**5,000**	2.6	5,600

Expected cash flows for the following year

	£000
Expected employer contributions	**9,706**
Expected total benefit payments:	
Year 1	**3,997**
Year 2	**4,113**
Year 3	**4,232**
Year 4	**4,354**
Year 5	**4,480**
Then for next 5 years	**24,420**

22 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.

	At 31 March 2016 **£000**	At 31 March 2015 £000
Government grants	**6,624**	6,978
Customer billing in advance	**2,325**	2,267
	8,949	9,245
Non-current	**6,265**	6,607
Current	**2,684**	2,638
	8,949	9,245

The Company credited £4.9k to capital grants during the year. The balance of grants noted above relates to awards made previously to DRD Water Service. All grants have been recognised as deferred income, and are being amortised over the useful economic life of the related asset.

23 Provisions

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total** **£000**
Balance at 1 April 2015	1,765	562	2,403	106	1,772	**6,608**
New Provisions	1,032	140	-	-	1,512	**2,684**
Utilised	(551)	(180)	(1,900)	-	-	**(2,631)**
Transferred to accruals	-	-	(503)	-	-	**(503)**
Utilised	-	-	-	-	-	**-**
Amounts released unused	(438)	87	-	-	-	**(351)**
Balance at 31 March 2016	**1,808**	**609**	**-**	**106**	**3,284**	**5,807**
Non-current	1,085	457	-	-	1,512	**3,054**
Current	723	152	-	106	1,772	**2,753**
	1,808	**609**	**-**	**106**	**3,284**	**5,807**

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total** **£000**
Balance at 1 April 2014	2,159	497	6,553	106	1,675	**10,990**
New Provisions	1,030	120	-	-	97	**1,247**
Utilised	(623)	(135)	(4,150)	-	-	**(4,908)**
Amounts released unused	(801)	80	-	-	-	**(721)**
Balance at 31 March 2015	**1,765**	**562**	**2,403**	**106**	**1,772**	**6,608**
Non-current	1,059	422	-	-	-	**1,481**
Current	706	140	2,403	106	1,772	**5,127**
	1,765	**562**	**2,403**	**106**	**1,772**	**6,608**

23 Provisions continued

Public and employer liability claims

The public liability and employer liability claims at 31 March 2016 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 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 Company premises. A related contingent liability has also been disclosed at note 28. 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.

Environmental liability

The environmental provision, which has fallen to nil at year-end 31 March 2016, had been calculated after carrying out an Environmental and Liability Assessment at various services sites. The amount provided represented the best estimate of the Company's liability after discussions and agreement with the environmental regulator (NIEA) on the work to be carried out. This provision related to a contract which is in place to carry out the required remedial work. Scheduled payments have now been made in line with work carried out and as agreed milestones have been achieved. The final payment now due in 2016/17 is for £0.5m and this has been included within accruals shown in note 24.

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 2016 to their official date of retirement. These payments are made on a monthly basis to DFP and the amounts and timing of these should not be subject to any uncertainty.

Other provisions

Other provisions relates to management's best estimates of the value of entitlement in relation to holiday pay totalling £2,284k (2015: £772k) and of third party costs in relation to the resolution of contractual disputes of £1,000k (2015: £1,000k).

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

31 March 2016

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	723	152	-	106	1,772	**2,753**
In the second to fifth years	1,085	457	-	-	1,512	**3,054**
Over five years	-	-	-	-	-	**-**
	1,808	**609**	**-**	**106**	**3,284**	**5,807**

31 March 2015

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	706	140	2,403	106	1,772	**5,127**
In the second to fifth years	1,059	422	-	-	-	**1,481**
Over five years	-	-	-	-	-	**-**
	1,765	**562**	**2,403**	**106**	**1,772**	**6,608**

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

24 Trade and other payables

	At 31 March 2016 £000	At 31 March 2015 £000
Payments received on account	**1,743**	1,279
Trade payables	**8,183**	21,172
Taxation and social security	**1,148**	1,022
Accruals – operating expenditure	**44,207**	42,996
Accruals – capital expenditure	**60,854**	52,101
Accruals to related parties (see note 29)	**825**	850
	116,960	119,420

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

Other payables

	At 31 March 2016 £000	At 31 March 2015 £000
Non-current	**1,373**	1,273
Current	**10,621**	9,843
	11,994	11,116

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

Exposure to currency risk

The Company is not exposed to any significant currency risks.

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:

Loans and receivables	Note	**At 31 March 2016 £000**	At 31 March 2015 £000
Trade and other receivables	17	**11,524**	12,889
Unbilled income included within prepayments		**10,489**	9,738
Cash and cash equivalents	18	**3,169**	949
		25,182	23,576

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:

	Carrying amount	
	At 31 March 2016 £000	At 31 March 2015 £000
End-user customers	**22,013**	22,631

The maximum exposure to cash and cash equivalents (note 18) is £3,169k (2015: £949k). The majority of this balance relates to monies held at the Company's principal banker, Danske Bank.

25 Financial instruments

Impairment losses

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

	Gross	**Impairment**	Gross	Impairment
		At 31 March 2016		At 31 March 2015
	£000	**£000**	£000	£000
Not past due	**18,917**	**173**	18,386	145
Past due 0-30 days	**1,867**	**57**	1,449	43
Past due 31-60 days	**528**	**38**	1,054	27
Past due 61-90 days	**467**	**41**	353	16
Past due 91-120 days	**228**	**68**	595	134
Past due 121-150 days	**262**	**138**	258	102
Past due 151-365 days	**1,202**	**955**	1,116	774
Past due 1-2 years	**937**	**935**	1,624	1,309
Past due 2+ years *	**697**	**687**	2,484	2,138
	25,105	**3,092**	27,319	4,688

* 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:

	At 31 March 2016	At 31 March 2015
	£000	£000
Not past due	**17,764**	17,847
Past due 0-30 days	**1,892**	1,368
Past due 31-60 days	**510**	1,345
Past due 61-90 days	**379**	383
Past due 91-120 days	**109**	555
Past due 121-150 days	**169**	243
Past due 151-365 days	**1,082**	1,157
Past due 1-2 years	**878**	1,415
Past due 2+ years	**2,322**	3,006
	25,105	27,319

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.

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

	At 31 March 2016	At 31 March 2015
	£000	£000
Balance at 1 April	**4,688**	4,696
New provisions	**2,407**	2,305
Debt provision utilised	**(1,333)**	(845)
Provision released unused	**(2,670)**	(1,468)
Balance at 31 March	**3,092**	4,688

25 Financial instruments continued

The 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 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 Company also has debtors associated with miscellaneous income. The 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.

Liquidity risk

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

31 March 2016

	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	**983,560**	(1,499,031)	(23,483)	(23,355)	(46,838)	(140,641)	(1,264,714)
Finance lease liabilities	**212,680**	(418,351)	(11,941)	(11,941)	(24,175)	(74,743)	(295,551)
Trade and other payables	**128,954**	(128,954)	(127,581)	-	-	(1,373)	-
	1,325,194	(2,046,336)	(163,005)	(35,296)	(71,013)	(216,757)	(1,560,265)

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

31 March 2015

	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	**947,560**	(1,498,102)	(22,986)	(22,986)	(45,847)	(137,667)	(1,268,616)
Finance lease liabilities	**216,100**	(441,869)	(11,760)	(11,760)	(23,881)	(73,620)	(320,848)
Trade and other payables	**130,536**	(130,536)	(129,263)	-	-	(1,273)	-
	1,294,196	(2,070,507)	(164,009)	(34,746)	(69,728)	(212,560)	(1,589,464)

Details of the timing of the cash outflows in respect of provisions are set out in note 23.

Profile

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

	Carrying amount	
	At 31 March 2016 £000	At 31 March 2015 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,196,240)**	(1,163,660)
	(1,196,240)	(1,163,660)
Variable rate instruments		
Financial assets	**3,169**	949
Financial liabilities	**-**	-
	3,169	949

25 Financial instruments continued

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. 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 classification of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are set out below.

	Note	Available for sale £000	Loans and receivables £000	Liabilities at amortised cost £000	Total carrying amount £000
31 March 2016					
Financial assets not measured at fair value					
Cash and cash equivalents	18	-	3,169	-	3,169
Trade and other receivables	17	-	11,524	-	11,524
Unbilled income		-	10,489	-	10,489
Financial assets measured at fair value					
Investment securities: - Equity securities	14	27	-	-	27
		27	25,182	-	25,209
Financial liabilities not measured at fair value					
Finance lease liabilities	20	-	-	(212,680)	(212,680)
Trade payables	24	-	-	(116,960)	(116,960)
Other payables	24	-	-	(11,994)	(11,994)
Loans and borrowings	20	-	-	(983,560)	(983,560)
		-	-	(1,325,194)	(1,325,194)

	Note	Available for sale £000	Loans and receivables £000	Liabilities at amortised cost £000	Total carrying amount £000
31 March 2015					
Financial assets not measured at fair value					
Cash and cash equivalents	18	-	949	-	949
Trade and other receivables	17	-	12,893	-	12,893
Unbilled income		-	9,738	-	9,738
Financial assets measured at fair value					
Investment securities: - Equity securities	14	38	-	-	38
		38	23,580	-	23,618
Financial liabilities not measured at fair value					
Finance lease liabilities	20	-	-	(216,100)	(216,100)
Trade payables	24	-	-	(119,420)	(119,420)
Other payables	24	-	-	(11,116)	(11,116)
Loans and borrowings	20	-	-	(947,560)	(947,560)
		-	-	(1,294,196)	(1,294,196)

25 Financial instruments continued

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 £1,200m (2015: £1,166m). Note 1c 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 occured because all loans and borrowings are provided by the Shareholder and the Company has no access to external finance markets. The fair value of finance lease liabilities cannot be estimated as there is no current observable interest rate specific to a PFI scheme of this exact nature and duration in Northern Ireland. Further details on the terms and year end balances can be found in note 20. The loans and borrowings are categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. 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, DRD.

26 Operating leases

Leases as lessee

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

	At 31 March 2016 £000	At 31 March 2015 £000
Less than one year	**243**	214
Between one and five years	**971**	960
More than 5 years	**-**	221
	1,214	1,395

The 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 2016 an amount of £207k was recognised as an expense in profit or loss in respect of operating leases (2015: £101k).

27 Capital commitments

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

	At 31 March 2016 £000	At 31 March 2015 £000
Contracted	**59,069**	61,056

In addition to the above, at the end of the financial year the Company had entered into commitments amounting to £705m (2015: £764m). These commitments relate to planned future capital spend. The contracted amount of £59m is in relation to actual spend contracted with suppliers to date.

28 Contingencies

The Company is disputing liability in some public and employer liability cases. The estimate of the financial effect is £0.7m (2015: £0.7m). It has been estimated that there is less than a 50% chance of these cases leading to a loss. If such a loss should arise there is no possibility of any reimbursement. In addition, the Company is disputing a number of claims from contractors amounting to £7.35m (2015: £7.35m) which the Directors consider there is less than a 50% likelihood of a loss.

A summary of contingent liabilities is set out below:

	At 31 March 2016	At 31 March 2015
	£000	£000
Public and employer liability	657	687
Contractor claims	7,350	7,350
	8,007	8,037

Debenture to DRD

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

The Company has entered into an environmental indemnity with DRD (from 9 May 2016 Department for Infrastructure (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 Company has registered a debenture to counter indemnify DRD in relation to these three guarantees. Under this debenture the Company pledges to DRD by way of first floating charge and as a continuing security for the payment and discharge of the secured liabilities all of the 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.

Contingent assets

The Company receives performance bonds from customers in relation to the requisition of water mains and sewerage services. These are either received as a cash amount ('cash bond') or as a legal underwriting by various financial institutions arranged by a new developer ('paper bond'). Cash Bond amounts will only be retained or paper bonds drawn down on if customers are in default of agreed conditions and the amount will then will recognised as income. The cash bonds are held within general funds by the Company and there is no restriction on the use of these by the Company until the amount is returned to the developer after the work undertaken has passed inspection. The balance of cash bonds held at 31 March 2016 is £6.85m and this balance is included in accruals (see note 24). Paper bonds are not recognised in the financial statements as they have no value to the Company until a default situation arises. The value shown on paper bonds held at 31 March 2016 is £17.8m. These items are considered contingent assets as an inflow of economic benefits is considered to be remote.

29 Related parties

Parent and ultimate controlling party

The Company is a Government owned Company and 100% owned by its ultimate controlling party, the Department for Infrastructure (DfI) (previously DRD - see Note 31 Subsequent Events in relation to the Departments Act (Northern Ireland) 2016) and The Departments (Transfer of Functions) Order (Northern Ireland) 2016, which has resulted in: the number of NICS departments being reduced from 12 to 9; and in May 2016 the functions of the DRD being transferred to the Department for Infrastructure (DfI). The results of the Company will not be within the annual financial statements prepared by the DRD, nor in the financial statements of any other entity. Inter-Company debtor and creditor balances with the DRD and other government bodies will be supplied to the DRD 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.

29 Related parties continued

Related party disclosures with DRD are as follows:

	At 31 March 2016 £000	At 31 March 2015 £000
Subsidy		
Revenue subsidy from DRD (credited to revenue)	**283,450**	279,624
Revenue relating to road drainage (credited to revenue)	**20,030**	19,154
Revenue subsidy from DRD relating to third party contributions (credited to revenue)	**-**	16
Other receivables - subsidy (included in other receivables - note 17)	**1,450**	1,229
Other sales to DRD (credited to revenue)	**1,230**	1,785
Trade receivables - other sales to DRD (included in trade receivables - note 17)	**240**	325
Purchases		
Purchases from DRD (included in operating costs or capital expenditure)	**700**	513
Accruals - purchases from DRD (included in accruals - note 24)	**440**	464
Loans and borrowings		
Loans from DRD during the year	**36,000**	36,000
Balance on loans from DRD at year end - note 20	**983,560**	947,560
Loan interest to DRD - note 9*	**46,537**	45,312
Loan interest owed to DRD at year end	**386**	386
Dividends		
Dividend to Shareholder - note 19	**24,736**	23,543

* loan interest stated before capitalisation of £2,721k (2015: £3,886k) of interest.

No guarantees are given to or received from DRD 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 DRD.

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 54 to 58. Key management personnel's compensation is disclosed in note 8a.

Key management personnel's and Directors' transactions

George Butler was an Executive Director of NI Water until he left the Company on 8 August 2015. While employed by NI Water he was also Chairman of NI Water Pension Trust Company and a Director of the UK Water Industry Research Company (UK WIR). During the year the Company purchased £99k (2015: £99k) of services from UK WIR.

30 Service concession agreements

The transfer of ownership of the assets and liabilities of Water Service from an agency of DRD 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 wastewater services.

The capital cost of each contract is included within 'property, plant and equipment' (see note 11) and as PPP creditor in 'loans and borrowings' (see note 20) 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.

30 Service concession agreements continued

Description

Kinnegar

A contract with Coastal ClearWater 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 £11 million. 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 2016 is £12.0m and £6.25m respectively (2015: £12.0m and £6.6m). The amount included in PPP Creditors at 31 March 2016 is £3.67m (2015: £3.86m).

Alpha

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 £111 million. 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 2016 is £117.68m and £91.86m respectively (2015: £116.2m and £93.9m). The amount included in PPP Creditors at 31 March 2016 is £92.50m (2015: £94.4m).

Omega

A contract with Glen Water Limited was signed on 6 March 2007 for the provision of sewage treatment and sludge disposal at five sites with a capital cost in the region of £132 million. 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 2016 is £140.89m and £110.95m respectively (2015: £140.7m and £115.2m). The amount included in PPP Creditors at 31 March 2016 is £116.51m (2015: £117.9m).

Significant terms

The key terms relate to the basis upon which the 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 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 wastewater 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 Company's primary obligations are to deliver raw water and wastewater to the PPP Companies and thereafter the 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 Company), force majeure, uninsurable events or voluntary termination by the Company. Each contract contains a formula from which termination compensation payable by the 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.

31 Subsequent events

The Department for Infrastructure (formerly known as the Department for Regional Development) was formed on the 9 May 2016. The Department for Infrastructure has taken on all the previous responsibilities of the Department for Regional Development in relation to Northern Ireland Water Limited including as Shareholder and provider of subsidy and loan notes.

Independent Auditors' Report to the Members of Northern Ireland Water Limited

We have audited the financial statements ("financial statements") of Northern Ireland Water Limited for the year ended 31 March 2016 which comprise the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK and Ireland).

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

2 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 (formerly known as the Department for Regional Development) as set out in their direction to the Company of 18 November 2010 and the financial transactions conform to the authorities which govern them.

3 Our conclusions on other matters on which we are required to report by the Companies Act 2006 are set out below

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

4 We have nothing to report in respect of matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

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 respect of the above responsibilities.

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 59, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2006. Our responsibility is to audit and express an opinion on the financial statements in accordance with UK law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Independent Auditors' Report to the Members of Northern Ireland Water Limited
continued

An audit undertaken in accordance with ISAs (UK and Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK and Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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
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