Annual Report & Accounts
2016/17

northern ireland water

Delivering what matters

Northern Ireland Water Limited Annual Report and Accounts

For the year ended 31 March 2017

Laid before the Northern Ireland Assembly under Article 276 of the Water and Sewerage Services (Northern Ireland) Order 2006 by the Department for Infrastructure on 4 September 2017

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Strategic report

Governance

Image on front cover - Camlough Lake, Newry, Co. Armagh.

About this report

This report aims to tell the story of how we are delivering against our customer promises and ultimately creating long-term sustainable value for society.

We have made a number of changes to this year's report, which we hope will help you understand our business better. For example, we have included the following:

- **new infographics to explain how we add value to the local economy (page 7), our key business activities (page 8), how we manage our risks and opportunities (page 19) and our financing (page 42);**
- **improved linkage between the customer promises, our strategic performance indicators and our risks and opportunities (page 18); and**
- **restructured the notes to the financial statements by grouping them under key themes (page 76).**

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'.

Visitors at the NI Water stand during the Balmoral Show.

Welcome

It is with pleasure that I welcome you to NI Water's Annual Report for 2016/17, our second year of reporting for our six-year business plan to 2021.

Every aspect of life in Northern Ireland depends on the services NI Water provides. By supplying clean fresh water and safely managing wastewater, we safeguard people's health, underpin economic growth and protect the environment, which benefits everyone in Northern Ireland.

During 2016/17 we delivered record levels of wastewater compliance. Water quality compliance remains at near record levels.

Much of what we deliver takes place underground or out of sight. In 2016/17 we invested £154.3m[1] to maintain and improve our treatment works and networks. This included the delivery of 172km of water mains, completion of the Carland to Cookstown strategic water trunk main, Co. Tyrone and Blackrock Wastewater Treatment Works, Co. Down.

This investment plays an important role in underpinning economic growth. The Ulster University Business School estimates that for every £1 of expenditure by NI Water, the multiplier effect in the local economy is almost double. This equates to a £2.5bn 'ripple effect' over the 6 year Price Control 15 (PC15) (2015/16 to 2020/21) period, which can be viewed as a major contributor to Northern Ireland's Gross Added Value[2].

Our strategy is focussed on putting our customers first. We aim to deliver what matters for our customers by focussing on resolving issues at the first point of contact. Our new virtual Customer Service Centre has been operational from April 2016, bringing contact handling, customer escalations and closer work control and automation into a single function. Another example of our customer focus has been the streamlining of business processes. Our Water Production Line aims to optimise performance from 'Source to Tap' to ensure clean, safe drinking water for our customers. Wastewater activities have been merged from 'Sink to Sea' in order to collect and process wastewater more efficiently, enhancing the service we provide to customers, and continuing to improve the quality of the environment.

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 five years ago.

April 2017 marked the Company's first ten years. We celebrated this 'Decade of Delivery' with a series of events, including an event at Stormont's Long Gallery and opening 20 sites to share with the local community our strategy 'Delivering What Matters'.

We continue to strengthen our leadership team to implement our strategy. In January 2017, Paul Harper joined us as our new Director of Asset Delivery as part of a re-organisation to ensure our asset management and capital delivery processes support delivery of our customer promises.

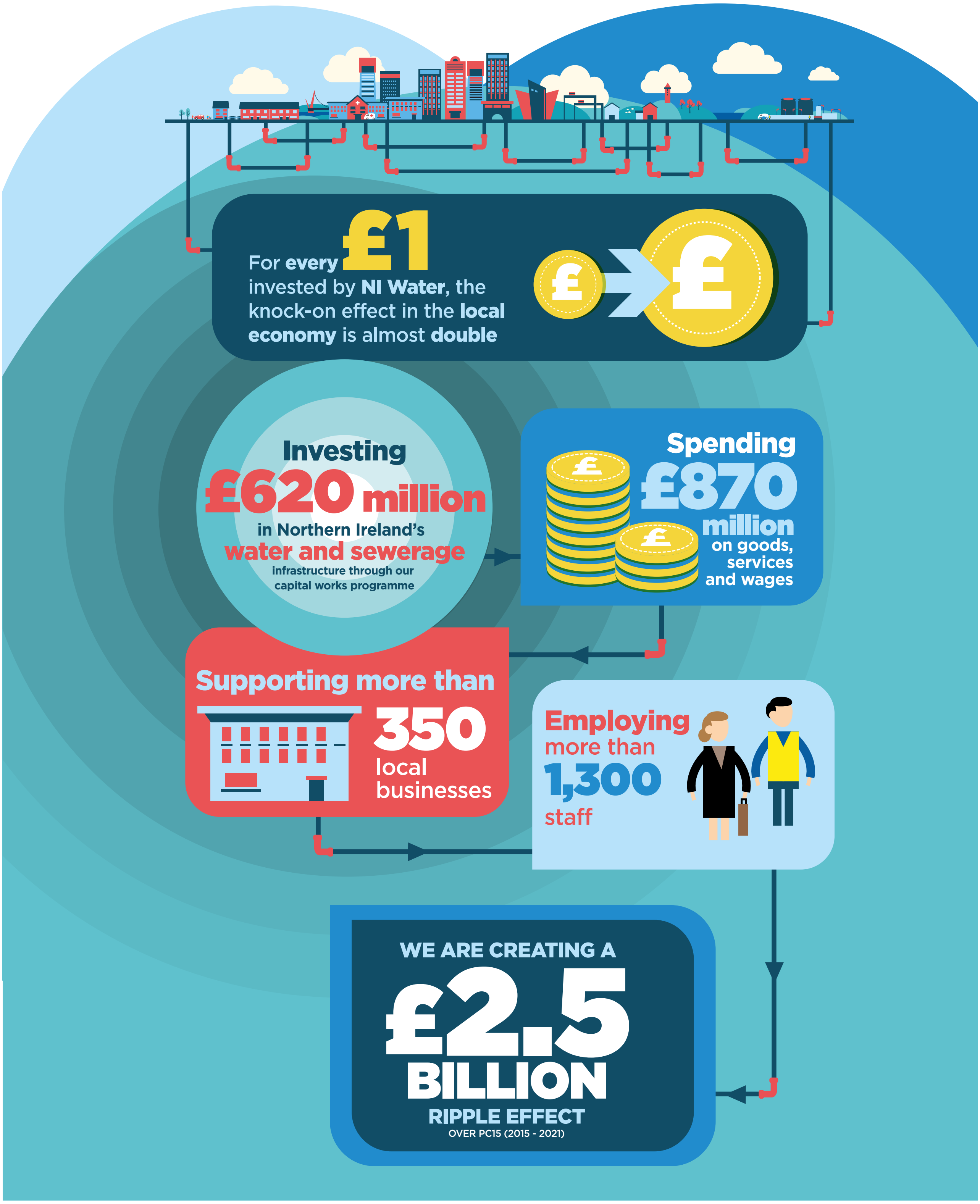
Finally, I would like to thank all our employees for their continued commitment to deliver what matters to our customers every day. I hope that this report provides an insight to how NI Water works to achieve our vision to be a valued and trusted provider of one of Northern Ireland's most essential services; an organisation our customers and staff can be proud of.

Dr Leonard J. P. O'Hagan CBE
Chairman
27 June 2017

[1] Gross capital expenditure.
[2] "The £2.5 billion ripple effect", (page 7) https://www.niwater.com/sitefiles/resources/pdf/reports/rippleeffectdocument.pdf

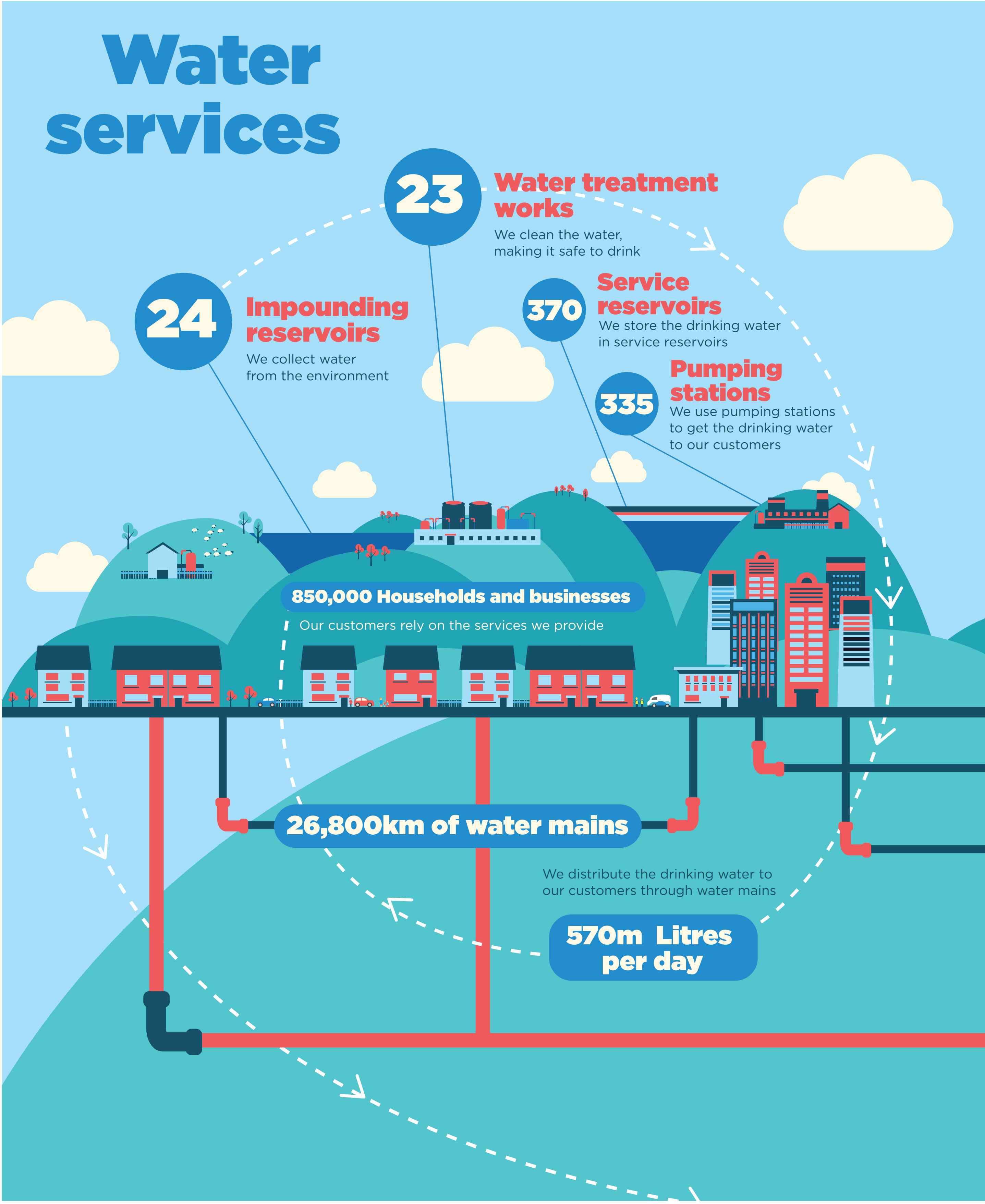
We don't just pump water

We pump millions of pounds into the local economy



Key business activities

It takes around £460m each year to deliver water and wastewater services in Northern Ireland.



Waste water services

680k **Households and businesses**

We collect wastewater from our customers

1,300 **Pumping stations**

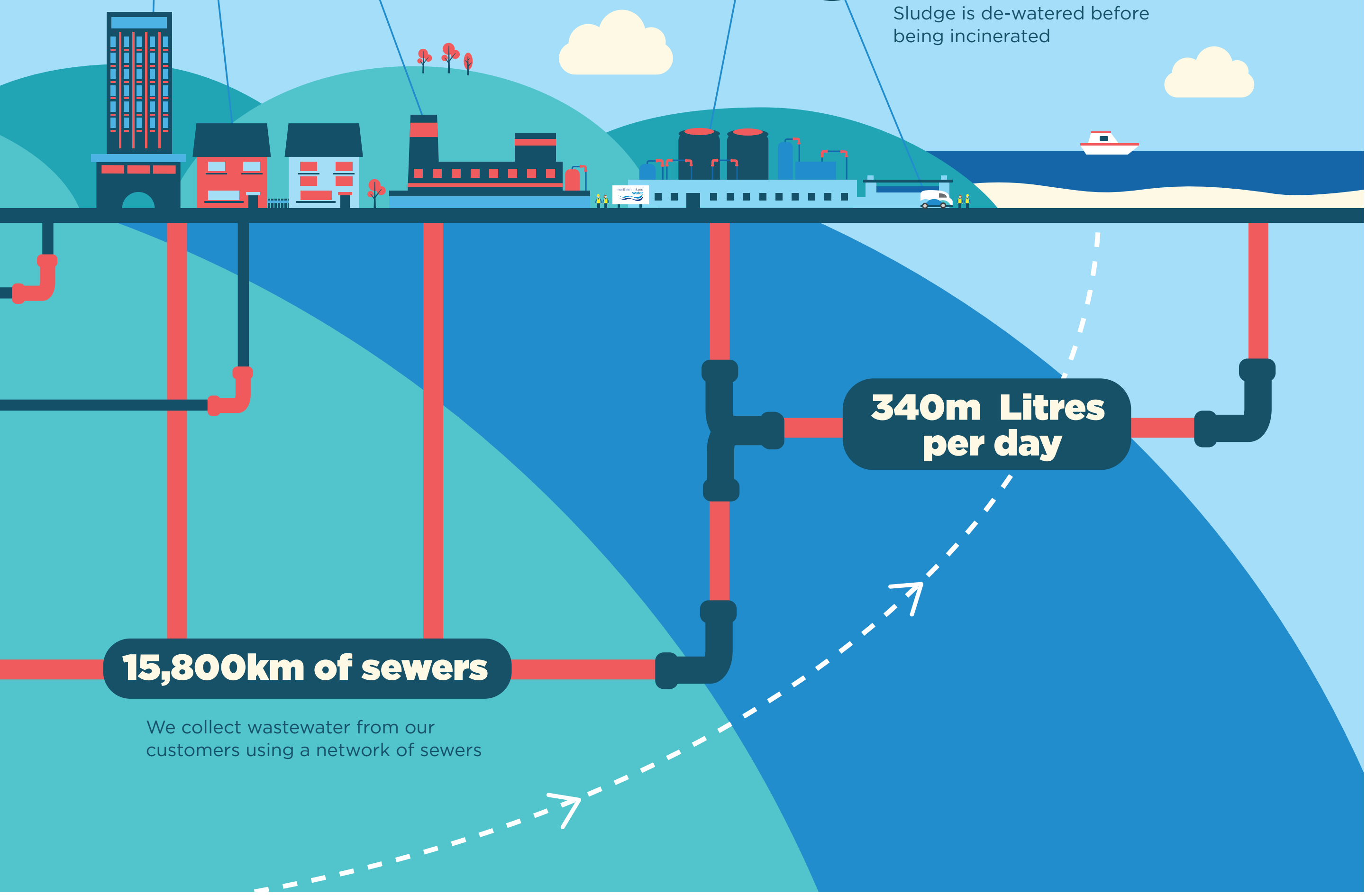
We use pumping stations to get the wastewater to our treatment works

1,030 **Wastewater treatment works**

We treat wastewater and return it safely to the environment

60 **Sludge management centres**

Sludge is de-watered before being incinerated



We collect wastewater from our customers using a network of sewers

How we create value

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

Outputs

Drinking water
Treated wastewater
Skills and expertise
Innovation
Waste and emissions

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.

Our culture

Customer service excellence
Continuous improvement
Collaborative working
Taking ownership
Integrity

environment

Read more pg15

Where we add value

Customer service
Read more pg26

Drinking water quality
Read more pg28

Water supply
Read more pg30

Wastewater
Read more pg32

People
Read more pg34

Natural environment
Read more pg36

Climate change
Read more pg38

Value for money
Read more pg40

Business performance

Delivering What Matters – as we reach our ten year anniversary I am proud to announce that we have delivered another strong level of performance in 2016/17. Our successes in protecting health, safeguarding the environment and promoting a strong regional economy have been achieved despite uncertainty over the funding for PC15.

Putting our customers first

Our customers are experiencing historically high levels of service.

We outperformed the target for **overall level of service** delivered to our customers by 3%. We achieved an Overall Performance Assessment (OPA) score of 228 against a 2016/17 target of 221.

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

The investment in our networks and treatment works is maintaining water quality and improving wastewater quality.

Our level of **wastewater** compliance in 2016 was at a record level of 98.89% and **water compliance** at a near record level of 99.86%.

Pages 28 and 32.
Read more about improving drinking water and wastewater quality.

We plan to invest around £120m in water mains improvement by 2020/21, of which £20m was invested in 2016/17.

In 2016/17 we met all of our **supply interruption** targets.

Page 31.
Read more about investment in our water supply infrastructure.

Our **leakage** outturn figure for 2016/17 was 163.44 million litres per day (Ml/d) against a target of 161Ml/d. We will look to deploy additional resources over 2017/18 in order to achieve the targeted reduction in leakage.

Page 30
Read more about reducing leakage.

Our investment programme is also targeted at alleviating the problems faced by areas which have experienced flooding events.

We achieved all our **sewer flooding** targets for 2016/17. This included the removal of seven properties from the 'at risk register' and achieving our cumulative two year target of 14 properties.

Page 33
Read more about sewer flooding.

Doing more for less

Over 2016/17 we have improved our business, maintaining **high 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 keep water and sewerage charges stable.

There was no increase in non-domestic tariffs in 2016/17. The average increase of 1.65% in 2017/18 was less than that permissible by the Utility Regulator and **below the current rate of inflation. Business customers will pay less in real terms** for their water and sewerage services than they did in 2016/17.

Page 40
Read more about reducing our running costs.

Working with the natural environment

We are committed to delivering sustainable solutions for wastewater. Following the success of our first Integrated Constructed Wetland (ICW) at Stoneyford, Co. Antrim we have opened a second ICW at Castle Archdale, Co. Fermanagh which will serve an equivalent population of approximately 1,000 people.

We have recently collaborated with Irish Water and other partners to apply for €40.2m of EU INTERREG funding for cross border projects. We have been successful in securing €4.9m for investment in sustainable solutions in the Erne and Derg catchments and the first tranche of €3.3m to improve water quality in shared transitional waters.

Page 36
Read more about piloting environmentally sustainable solutions.

Pollution incidents continue to be at near record low levels, with 22 incidents recorded against a target of not more than 27 incidents.

Page 32
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**. We have commissioned 55 solar installations across our network.

Page 38
Read more about adapting to deal with the effects of climate change.

Recognising our colleagues

In April, as part of our **decade of delivery**, over 330 award nominees, colleagues, stakeholders, sponsors and invited guests attended NI Water's first ever **recognition event** at the Titanic Centre Belfast to celebrate their success in **delivering what matters** for the local community. 93 entries were received for the awards covering nearly 400 individuals. I would like to pay tribute to the commitment and dedication of our colleagues.

Looking forward

NI Water is committed to delivering our strong and ambitious business plan for PC15. To allow us to **deliver what matters** we will be taking forward a range of business improvements to include:

- further embedding **Performance hubs** which have been set up across the business as a means of managing business performance on a more proactive basis to review performance, monitor actions to get performance back on track, sustain good performance or pursue outperformance;
- establishing a new **Capital Programme Management Office** (CPMO) to support delivery of our capital investment programme in closer collaboration with our suppliers; and
- developing our **Commercial Centre of Excellence** to help deliver sourcing and demand efficiencies.

I look forward to reporting continued improvements in the levels of service to our customers during the rest of the PC15 period and further demonstrate our commitment to delivering long-term sustainable value.

Sara Venning
Chief Executive
27 June 2017

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:

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. The current Executive policy is that the governance and funding arrangements will remain in place until 2022. The governance, funding and regulatory framework may evolve over the longer-term.

Customer expectations

Customers quite rightly expect better levels of service, making it ever more challenging for all organisations to meet their customers' expectations. As the provider of one of Northern Ireland's most essential services, delivering our customer promises is central to our strategy.

Legislation

It is anticipated that over the coming 25 years there will be significant new 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.

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. This will include the delivery of our digital strategy.

Demographics

The population of Northern Ireland is projected to increase by 180,800 (9.8%) between mid-2014 and mid-2039*. 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.

*http://www.ninis2.nisra.gov.uk/InteractiveMaps/DataVis/Population%20Projections%202014.pdf

External environment

Water industry structure

The water industry structure in Northern Ireland is shown below.

Role of Government

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

Utility Regulator

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

In the absence of a fully funded business plan for the PC15 period, it has been necessary to agree adjusted outputs with the DfI and the Utility Regulator. We remain committed to working collaboratively with our stakeholders to deliver the best possible levels of service to our customers within the funding available.

Northern Ireland Environment Agency

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

Drinking Water Inspectorate

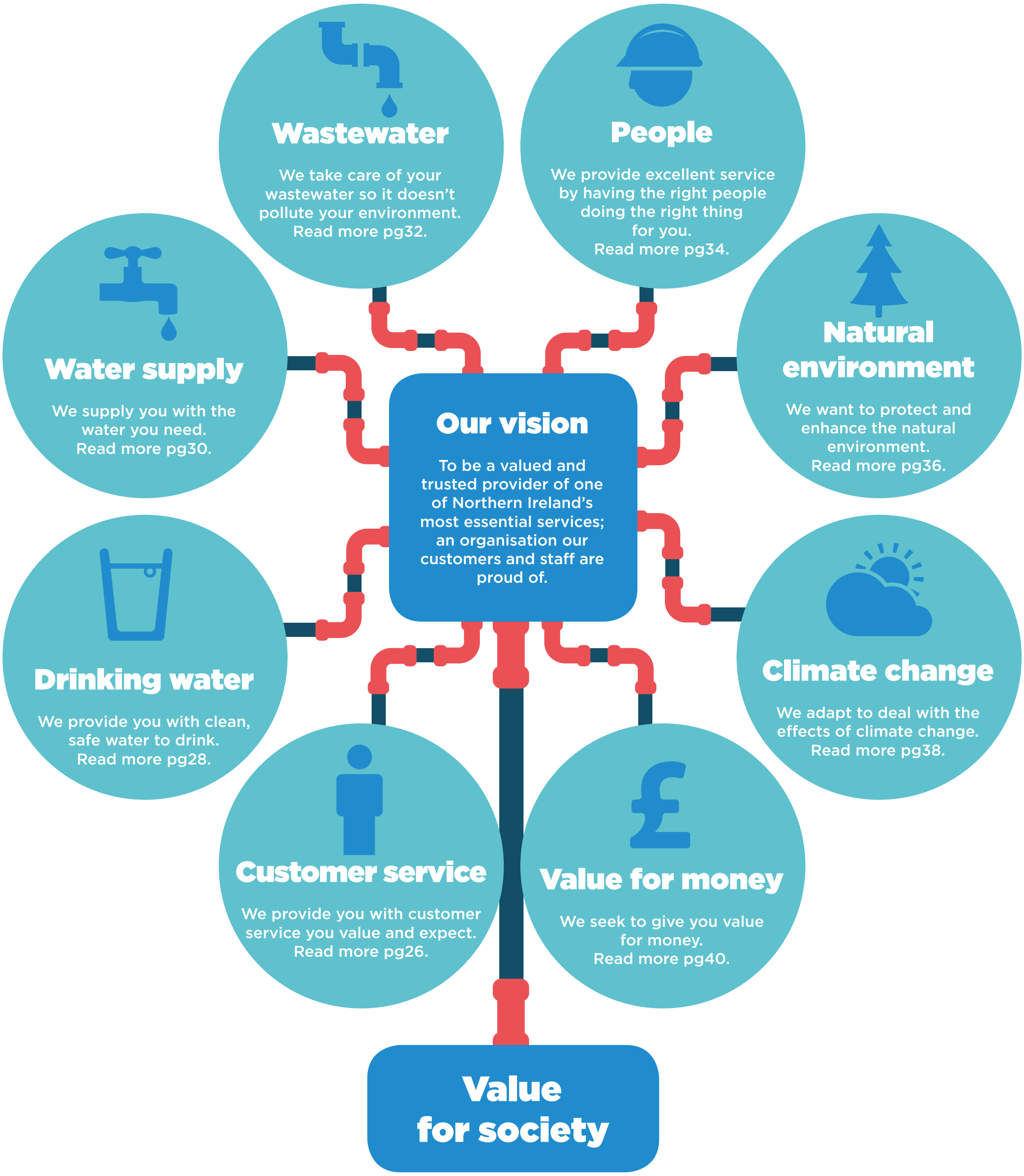
The Drinking Water Inspectorate (DWI) is an expert unit within the NIEA. DWI is responsible for monitoring and regulating the quality of drinking water, in consultation with health and environmental health authorities.

Consumer Council for Northern Ireland

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

Business strategy

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



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

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

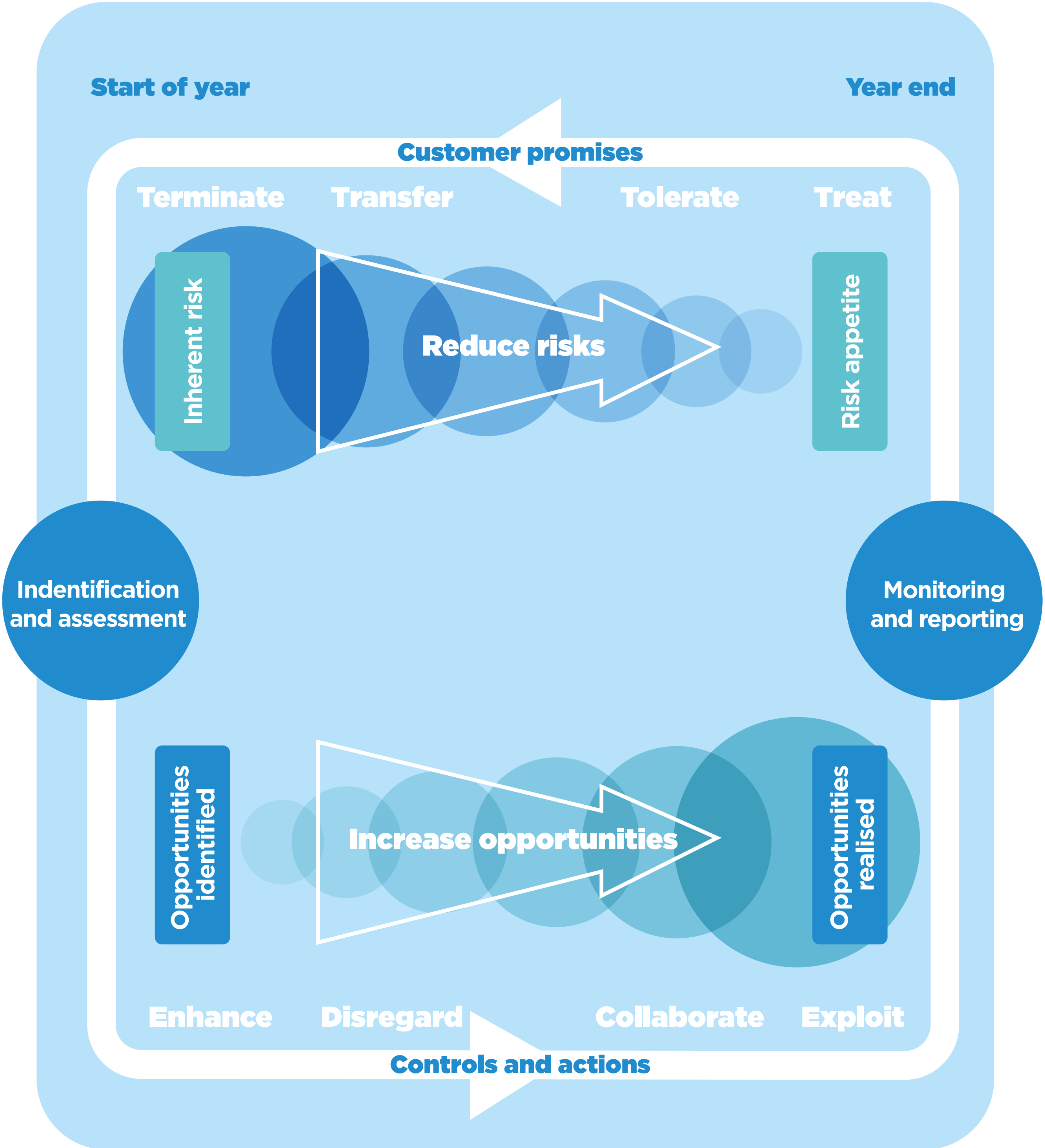
Customer promise	Strategic performance indicator (SPI)	Principal risk (PR)/ opportunity (OP) Read more pg20
We provide you with customer service you value and expect Read more pg26	Customer contacts: telephone contacts received	PR1 PR4 OP1 OP2 OP3 OP4
We provide you with clean, safe water to drink Read more pg28	Water quality compliance: overall compliance with drinking water regulations (%)	PR4 OP1 OP2
We supply you with the water you need Read more pg30	Supply interruptions: number of properties experiencing unplanned and unwarned interruptions (expressed as a percentage of households) in excess of: (a) 6 hours (b) 12 hours (c) 24 hours	PR1 PR2 PR3 OP1
We take care of your wastewater so it doesn't pollute your environment Read more pg32	Wastewater compliance: percentage of population equivalent (%)	PR1 PR2 PR3 OP1 OP3
We provide excellent service by having the right people doing the right thing for you Read more pg34	Health and safety: number of incidents resulting in >3 days absence from work and as a result of work activity	PR1 PR3 PR4 PR5 OP2 OP4
We want to protect and enhance the natural environment Read more pg36	Number of sustainable WwTW solutions delivered (population equivalent ≥ 250)	PR2 PR3 PR4 OP3 OP4
We adapt to deal with the effects of climate change Read more pg38	Percentage of NI Water's power usage derived from renewable sources	PR2 PR3 OP1 OP3 OP4
We seek to give you value for money Read more pg40	Overall performance assessment (OPA)	PR1 PR2 PR5 OP3

Principal risk (PR)	Opportunity (OP)
PR1 Business Performance and Efficiency Savings	OP1 Customer Service Improvement and Innovation
PR2 Governance Model and Capital Investment	OP2 Health, Safety and Well-being
PR3 Asset Resilience and Climate Change	OP3 Living With Water Programme
PR4 Data Integrity and Cyber Risk	OP4 Stakeholder Engagement and Environmental Enhancement
PR5 Pension fund	

Principal risks and opportunities to achieving our strategy

NI Water's approach to risk management is to have a risk culture where our colleagues and partners are aware of how they contribute towards the customer promises. There is a collaborative approach to analyse the downside risks that could have a detrimental impact on the achievement of the customer promises but also to consider the upside opportunities towards deriving better outcomes for customers.

NI Water's Opportunity Risk Management Model



Through a process of horizion scanning, benchmarking and workshops held on a business-wide basis, corporate risks and opportunities are established at the start of year and approved by the Board. The Board receives a monthly progress report on the management of risks towards the projected risk appetite and the realisation of opportunities. The Risk Committee, a sub-committee of the Board, considers the risk and opportunity maps, reviewing the effectiveness of clearly defined controls and the completion of actions towards the delivery of expected outcomes and the appetite level.

The Executive Committee meet on a monthly basis to consider corporate risk and opportunity maps and the completion of actions within agreed timelines. Corporate risk and opportunity maps are linked to directorate, programme and project risks and opportunities, such that risk management is integrated into the business.

Page 54
Read more about opportunity risk management.

Emerging from the corporate risks and opportunities are a number of significant risks and opportunities (described as principal in the UK Corporate Governance Code). For each principal risk or opportunity we have identified the related customer promise and the change in the level of risk/opportunity over 2016/17.

Principal risk / opportunity	Customer promise	Change in 2016/17
PR1 Business Performance and Efficiency Savings		▼
PR2 Governance Model and Capital Investment		=
PR3 Asset Resilience and Climate Change		=
PR4 Data Integrity and Cyber Risk		=
PR5 Pension fund		▲
OP1 Customer Service Improvement and Innovation		▼
OP2 Health, Safety and Well-being		▼
OP3 Living With Water Programme		=
OP4 Stakeholder Engagement and Environmental Enhancement		▼

Principal risks

PR1 Business Performance and Efficiency Savings

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

Background to the 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 damage to our assets; unlawful acts by third parties, including pollution, sabotage or other related acts; as well as a downturn in the economy which could adversely impact on business performance.

The level of efficiencies required over PC15 will present challenges to NI Water in terms of how it delivers these savings and at the same time, improves service performance. Whilst we have broadly achieved our targets in 2016/17, the targets set by the Utility Regulator for 2017/18 to 2020/21 are not achievable without the required funding. In addition, there is a risk that efficiency targets leave the Company 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, medium 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 business change initiatives which are critical to achieve the PC15 targets, deliver cost savings and provide the best possible service to our customers.

PR2 Governance Model and Capital Investment

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

Background to the risk

The current arrangements for the governance of NI Water as both a regulated Government Company and a NDPB 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 the PC15 Final Determination output targets to reflect a shortfall in public expenditure in 2015/16, 2016/17 and 2017/18. NI Water is an asset intensive business and medium and long-term planning is essential to improve services for customers today while investing to safeguard services for future customers. The uncertainty over funding for capital investment adds complexity and inefficiency to longer-term asset resilience and makes it increasingly difficult for us to maintain momentum to complete our programmes of work.

Managing the 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 commitment 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 and communicated to the public in a clear and responsive manner.

PR3 Assets Resilience and Climate Change

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

Background to the 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 or an inefficient response to a major incident resulting from a weather related event, 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 an adverse impact to the environment.

Managing the risk

NI Water continues to work with the Utility Regulator and DfI on medium and long-term funding arrangements to make further improvement to its assets and take opportunities to manage exposure to risks associated with climate change. The Company's Business Continuity Management Framework and Major Incident Plan are continually being updated to reflect best practice and key learning points from annual testing, exercises and previous major incidents. 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 also in place to provide alternative work space.

PR4 Data Integrity and Cyber Risks

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

Background to the 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. The increased risk of cyber crimes with potential disruption to services, interruption to computer control systems and impact on data integrity could have a significant adverse impact on business performance over the recovery period. 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 incidents could 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. Management is continually working to improve cyber resilience through updating of systems controls, compliance with IT system supplier updates and through training and awareness programmes.

PR5 Pension fund

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

Background to the risk

The most financially significant risks are likely to be higher than expected actual inflation; lower than expected investment returns; the risk that movements in the value of the Scheme's liabilities are not met by corresponding movements in the value of the Scheme's assets; and members living for longer than expected.

Managing the risk

The Pension Trustee's investment strategy is to invest the majority of the Scheme's assets in a mix of equities and corporate bonds. This is in order to strike a balance between maximising the returns on the Scheme's assets and minimising the risks associated with lower than expected returns on the Scheme's assets. During the year 2016/17 there was a reduction in the discount rate as a result of market conditions. This gave rise to an increased reported deficit. Further information on accounting for the pension scheme is provided at page 48 and Notes E2 and G3 to the Statutory Accounts. The Trustee is required to regularly review the investment strategy in light of the revised term and nature of the Scheme's liabilities. This includes consultation with the Company. The next triennial review will report on the position as at 31 March 2017. Should a significant deficit emerge, further action may be required and agreed with DfI to fund the deficit.

Principal opportunities

OP1 Customer Service Improvement and Innovation

Innovation in service delivery and business processes through enabling technology.

Background to the opportunity

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

Managing the opportunity

Following a successful pilot, we are implementing 'Instrumentation, Control, Automation and Telemetry' technology to control our Service Reservoirs. The implementation programme will roll out the technology to over 200 sites during the PC15 period. Building on the success of our drone for 3D mapping of above ground assets, we have invested in a remote controlled boat to carry out sonar surveys of our reservoirs. During 2016/17, NI Water developed its first Digital Strategy. Our intent is to proactively harness digital technology to improve the service experience we offer to customers, employees and stakeholders, and to drive efficiencies across our business.

Page 27
Read more about our digital strategy.

OP2 Health, Safety and 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 at 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 towards improving staff well-being.

Managing the opportunity

NI Water was awarded 'highly commended in the Water Industry' in the 2016/17 RoSPA awards, for health and safety performance. This follows on from a number of RoSPA gold awards and a commendation for 2015/16 performance. These awards reflect NI Water's continuing commitment to the zero harm ambition, for all colleagues, contractors and the public. NI Water also implemented a 28 point plan to move towards its 'Zero Harm' ambition, following an external review of strategic health and safety, undertaken in 2015/16. 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.

NI Water volunteers at a Cares Challenge event at Kilcreggan Urban Farm Carrickfergus, Co. Antrim.

OP3 Living With Water Programme

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

Background to the opportunity

In July 2014 the NI Executive agreed to develop a Strategic Drainage Infrastructure Plan for Belfast. The plan aims to protect against flooding, enhance the environment and support economic growth by improving capacity for new connections. The initiative is now known as the 'Living With Water Programme', and is led by DfI. A Programme Board has been established and includes representatives of three Departments — DfI, which is responsible for water, rivers and roads; DoF; and DAERA which is responsible for the environment. NI Water actively participates in the Programme, together with the Utility Regulator, Strategic Investment Board and Belfast City Council. The work of the Programme is initially focused on greater Belfast due to the particularly urgent need for an agreed plan for that area. The Programme is also developing an Integrated Drainage Investment Planning Guide for use throughout Northern Ireland.

Managing the opportunity

NI Water's participation in the Programme provides an opportunity to develop the catchment based multi-agency and sustainable solutions needed to significantly upgrade the sewerage networks and wastewater treatment works that serve Belfast. The upgrade needs to be undertaken in a way that Government and NI Water can afford, and which minimises disruption during construction. NI Water's investment appraisals to inform the plan are already helping to identify and manage risks and make the best use of the funding over PC15 and beyond. Implementation of most of the proposed Programme capital investments that relate to NI Water's assets will require funding over and above that likely to be made available through the price control model. This requirement to fund these essential infrastructure improvements has been factored into the draft Investment Strategy for Northern Ireland.

OP4 Stakeholder Engagement and Environment Enhancement

Opportunity to engage with stakeholders 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 programmes are noted in the Principal Risks (PR2 and PR3) above. This opportunity relates to the efficient management of capital expenditure and asset maintenance expenditure through partnership with stakeholders to improve customer experience and deliver environmental improvements.

Managing the opportunity

NI Water is preparing its first water resource and supply resilience plan. This is an integrated plan including the following elements: a water resource plan; a drought plan; and a critical period plan. The resultant projects that will be delivered from the plan will improve overall asset resilience.

Brexit

On 23 June 2016, the United Kingdom voted to leave the European Union. The uncertainties over Brexit and the final outcomes of the UK's departure negotiations with EU have created uncertainties around future legislation, freedom of movement and economic stability. We have considered the risks and opportunities surrounding Brexit and have established an internal working group to manage its impact. The risks and opportunities surrounding Brexit do not form part of NI Water's principal risks and opportunities but are managed as part of NI Water's risk management process.

NI Water worked closely with Solmatix Renewables in the fit out of 55 solar installations across our network.

Delivering our customer promises
Customer service

We provide you with the customer service you value and expect

Key Highlights

1. New virtual Customer Service Centre - central operational control and the provision of excellent customer service.

2. Improved digital services for our customers including updating billing details.

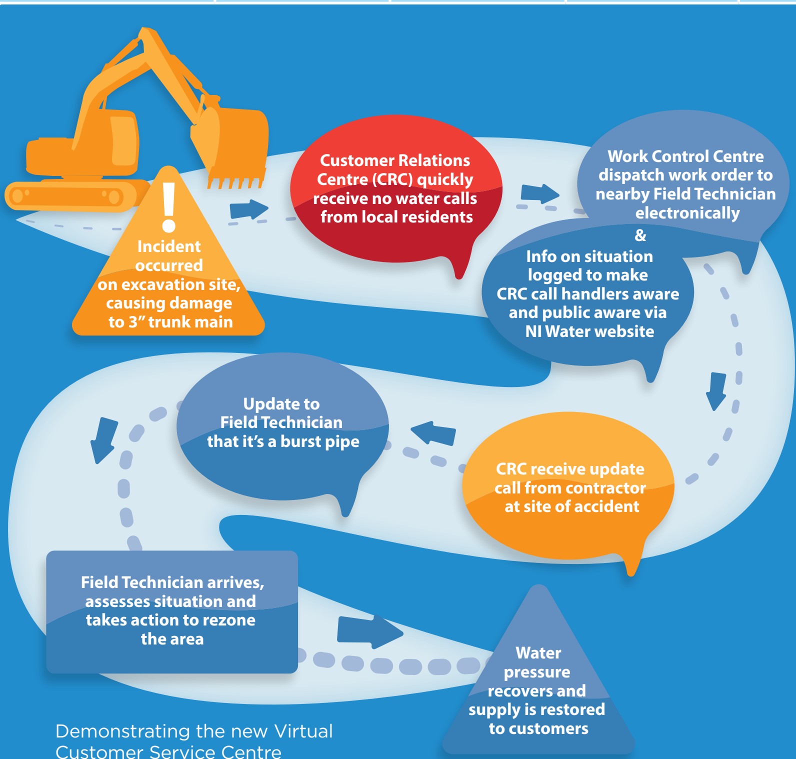
3. New Metering and Billing team to ensure customers who should be billed are being billed.

Principal risks/opportunities

PR1 PR4 OP1 OP2 OP3 OP4

Page 19 Read more about principal risks and opportunities.

SPI	Unit of measurement	Customer promise	Target 2016/17	Actual 2016/17	Pass / Fail	Target 2017/18
Customer contacts: Telephone contacts received	Number		232,625	217,023		220,993



Demonstrating the new Virtual Customer Service Centre responding to an incident.

Customer Service Centre

The new Virtual Customer service Centre (CSC)has been operational from April 2016, bringing all customer contacts, customer escalations, work control, telemetry control, management of our mobile work management system, Major Incident Planning and Options Engineering into a single function. While staff continue to be based across a number of different locations, they are starting to operate as a single team. Design work is ongoing to integrate the teams with a focus on central operational control and the provision of excellent customer service.

Digital Strategy

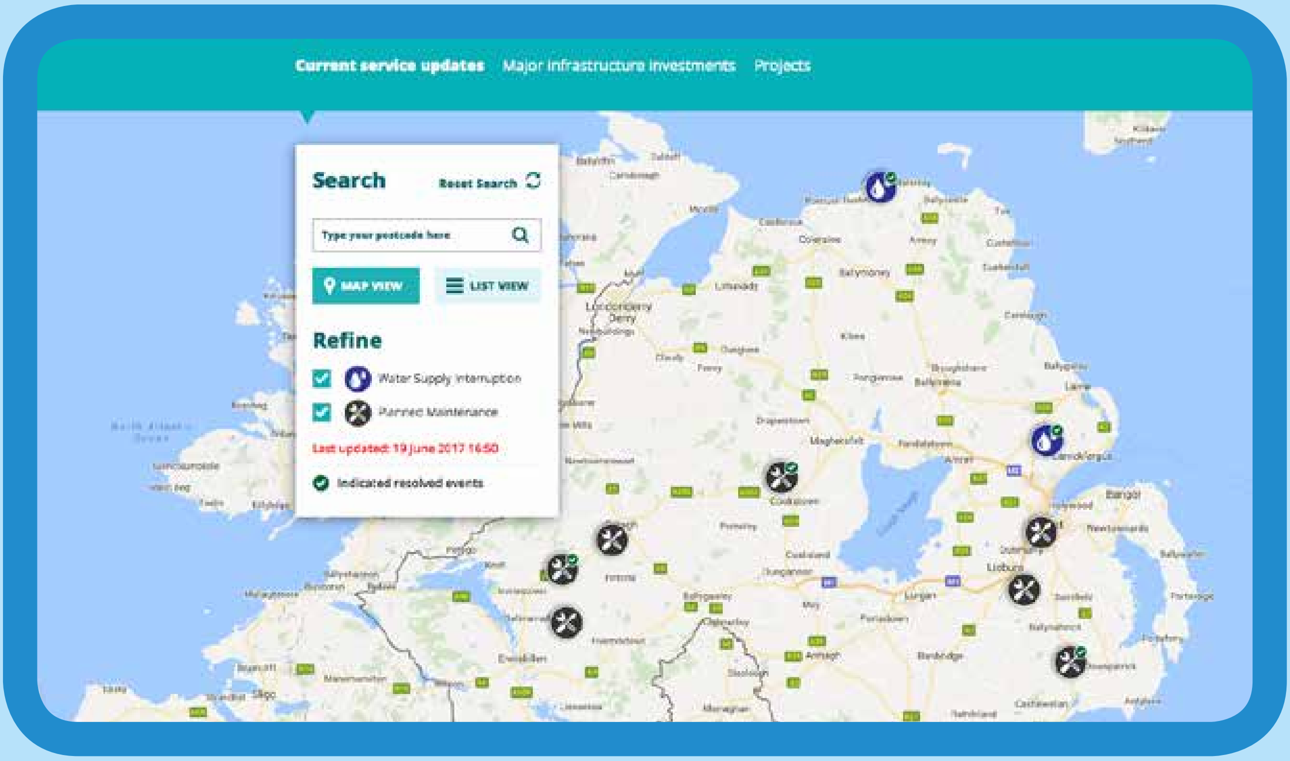
We have developed a digital strategy which will help modernise our customer interactions, optimising our internal processes and communications, enabling us to become more efficient through the use of technology.

Customers can now use a Google interactive map on our website which provides the estimated restoration time of unplanned and planned interruptions to their water supply. Changes have also been made to our website to make it more customer oriented and simpler to use.

Metering and Billing

The new Metering and Billing Team is an example of colleagues working together, across functions, to benefit all areas of the business and improve the service offered to the customer. With full responsibility for the end to end process, connection to collection, we are improving our processes and information systems to not only ensure that they are fit for purpose, but offer our customers the best service we can. We are focusing on our data systems to ensure everyone is billed equitably whilst improving the processes and technology employed to make them more efficient and effective. To date we currently estimate a revenue benefit of over £1m directly from the Metering and Billing project work. We are also piloting the introduction of new technology to streamline the meter reading and billing process to enhance NI Water's digital offering.

Google interactive map on NI Water's website



Find out more about 'What's happening in your area'. https//www.niwater.com/current-service-updates/

Drinking water

We provide you with clean, safe water to drink

Key Highlights

1. Provide high quality water which complies with statutory standards and obligations.

2. Proactive replacement of over 1,844 lead communications pipes at consumer properties.

3. Drinking Water Safety Plans in place for all areas.

Principal risks/opportunities

PR4 OP1 OP2

Page 19 Read more about principal risks and opportunities.

SPI	Unit of measurement	Customer promise	Target 2016	Actual 2016	Pass / Fail	Target 2017
Water quality compliance: Overall compliance with drinking water regulations (%)*	%		99.79	99.86		99.79

* Calendar year target

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. Every year we undertake 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.

In 2016/17 we delivered 1,867 lead pipe replacements under the proactive replacement programme against a target of 1,844.

Drinking water safety plans

NI Water uses Drinking Water Safety Plans to protect the drinking water supply and improve compliance with the Drinking Water Regulations. A Drinking Water Safety Plan is a comprehensive risk assessment and risk management approach to all the steps in a water supply chain from catchment to consumer. We have a Drinking Water Safety Plan in place for all our water systems and risks are kept under review.

NI Water also uses Drinking Water Safety Plan risk assessments to inform the investment strategy for drinking water. An example of this is the upgrade of treatment at Killyhevlin Water Treatment Works, Co. Fermanagh, to reduce the risk of pesticide exceedences in the drinking water supply. The Killyhevlin risk assessment identified that pesticide exceedances were a risk in the raw water supply. Pesticides can find their way into watercourses from a variety of sources, mainly from use in agriculture or weed control.

The assessment identified that capital investment for additional treatment was required to reduce the risk and comply with the drinking water regulations. Work was undertaken at Killyhevlin to construct filters to remove pesticides and organic matter from the water supply. This work was completed in June 2015 and monitoring samples taken in the period since the addition of the filters show more effective removal of pesticides from the raw water.

Water supply

We supply you with the water you need

Key Highlights

1. Continued focus on leakage.

2. Planning for Water Resource and Supply Resilience.

3. Completed Carland to Cookstown Trunk Main.

Principal risks/opportunities

PR1 PR2 PR3 OP1

Page 19 Read more about principal risks and opportunities.

SPI	Unit of measurement	Customer promise	Target 2016/17	Actual 2016/17	Pass / Fail	Target 2017/18
Supply interruptions - number of properties experiencing unplanned and unwarned interruptions (expressed as a percentage of households) in excess of:						
(a) 6 hours	%		0.853	0.602	Pass	0.840
(b) 12 hours	%		0.173	0.058	Pass	0.166
(c) 24 hours	%		0.010	0.000	Pass	0.010

Leakage

Our leakage out-turn figure for 2016/17 is 163.44 million litres per day (Ml/d) against a target of 161 Ml/d. Increased widespread leakage was experienced across the whole network during the summer months coupled with a significant increase in burst mains during October and November 2016. This created an extremely challenging situation from which we have failed to recover to meet our target, despite additional resources having been deployed.

Leakage will remain an area of focus in 2017/18.

Water Resource and Supply Resilience (WR&SR)

We are currently developing our first WR&SR plan to improve the resilience of Northern Ireland's water supply system. The plan sets out how NI Water intends to maintain the balance between water supply and demand, over the long-term. It also includes operational and management options and activities available to respond to severe weather events, such as drought.

NI Water will publish the draft plan for consultation.

Investing in our water supply infrastructure

We have made significant progress in delivering a more resilient water infrastructure. There has been significant reduction in the demand from the 2012 Water Resource Plan. This reduction, has been achieved through leakage detection and sustained investment in water mains to reduce leakage, along with reduced household and non-household demand.

We have also invested in upgrading our water mains infrastructure, to transfer drinking water between towns and cities throughout Northern Ireland (e.g. Carland to Cookstown Trunk Main).

The following major capital projects have also brought about improvements in our water mains infrastructure:

- Castor Bay – Belfast;
- Ballydougan – Newry; and
- Castor Bay – Dungannon.

Carland to Cookstown Trunk Main

Aerial view of the Carland to Cookstown Trunk Main under construction.

The Carland to Cookstown Strategic Link Main project permits the transfer of up to 2Ml/d from the Southern Resource Zone which is supplied from Lough Neagh.

The £2m project included the installation of 11.5km mains from Carland Service Reservoir, just north of Dungannon, to the Morgans Hill District on the southern outskirts of Cookstown. The scheme commenced in December 2015 and was commissioned in August 2016.

The route required negotiating several rivers, road bridges and large road culverts. In addition ancillary works included:

- connections to several District Metered Areas along the pipeline route adjacent to Cookstown to facilitate supplies to consumers in emergencies or during future maintenance; and
- flowmeter and telemetry installations at key locations to monitor flows and leakage, providing improved data to inform leakage reduction programmes.

Wastewater

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

Key Highlights

1. Wastewater Production Line developed to optimise performance from sink to sea.

2. Prioritise investment to address out of sewer flooding.

Principal risks/opportunities

PR1 PR2 PR3 OP1 OP3

Page 19 Read more about principal risks and opportunities.

SPI	Unit of measurement	Customer promise	Target 2016	Actual 2016	Pass / Fail	Target 2017
Wastewater compliance: Percentage of population equivalent (%)*	%		98.26	98.89		98.30

* Calendar year target

Optimising performance from sink to sea

Wastewater activities have been merged to create a holistic business area covering wastewater activities from 'Sink to Sea'. The production line focus has been on continuing to find even more efficient ways of collecting and processing wastewater, enhancing the service we provide to customers and continuing to improve the quality of the environment, including:

- review of the operating model design in relation to clearing sewer blockages and septic tank emptying – seeking to reduce repeat blockages, reduce customer calls and provide improved service to our customers;
- the introduction of new van jetting equipment, reduce the number of repeat blockages and customer complaints;
- a wastewater customer forum was established to assist in optimising performance and improve customer satisfaction; and
- wastewater performance hubs have been used to empower staff to identify and fix barriers to performance.

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.

In order to continuously improve, we track and monitor all reported pollution incidents, with root cause investigations undertaken in each instance. Weekly updates on pollution incidents are carried out using performance hubs and the performance is reviewed monthly by the cross Directorate NI Water Pollution Incidents Group. Quarterly meetings are also held with our Environmental Regulator, NIEA.

Flood risk

Our investment programme is targeted at alleviating the problems faced by areas which have experienced flooding events. 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.

£500,000 Investment in Clabby Road Pumping Station Complete

NI Water Staff and Contractors pictured at the new Clabby Road Pumping Station.

NI Water completed work on a new Wastewater Pumping Station at Clabby Road, Fivemiletown in 2016/17. The project involved replacing the existing Pumping Station to increase capacity and allow for future development in the area.

The new underground Wastewater Pumping Station was constructed on the same site as the existing station and a section of sewage pumping main close to the station was also replaced as part of this investment.

Peter Ferguson, NI Water Senior Project Manager said:

"The new Pumping Station and associated improvements are good news for customers in the local area, as the project will reduce the likelihood of out of sewer flooding and bring about environmental benefits in the area, such as improving water quality in the local watercourse".

People

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

Key Highlights

1. Recognition awards held to celebrate achievements.

2. Improved employee engagement.

3. Health and Safety Focus Group established.

Principal risks/opportunities

PR1 PR3 PR4 PR5 OP2 OP4

Page 19 Read more about principal risks and opportunities.

SPI	Unit of measurement	Customer promise	Target 2016/17	Actual 2016/17	Pass / Fail	Target 2017/18
Health and safety: Number of incidents resulting in >3 days absence from work and as a result of work activity	Number		7	4		7

Recognition awards 2017

At NI Water we have many talented individuals and teams who have gone above and beyond the day-to-day routines to achieve remarkable results and make a difference. Those achievements were recognised and celebrated at our NI Water Recognition Awards.

NI Water's Head of Organisational Development, Sonya Rooke, commented:

"We wanted to give our people the opportunity to share their individual and team success stories across the business and were overwhelmed by the quantity and quality of entries.

Nominations came from across the Company, spanning all grades and locations.

Narrowed down to 24 finalists, the Recognition Award ceremony was a great opportunity to showcase just how good we are at delivering what matters."

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. Our employee engagement survey response rate at 69% represented a 13% improvement on the 2013 survey.

Health and safety

Our Health and Safety Focus group is established and working well. The remit of the group has been reviewed and encompasses reviewing recent accidents and significant near misses, emerging trends, training compliance, contractor accidents, claims and best practice. The formation of this group is the single most important health and safety initiative in the last number of years and is supporting a cultural change across the Company.

NI Water wins RoSPA Major Sector Award for 2016

NI Water's Safety Health and Environment Team with the RoSPA award

NI Water had been awarded 'Commended in the Water Industry Sector' for Occupational Health and Safety by RoSPA for 2016.

NI Water's Safety Health and Environment Manager, John McCullagh, commented:

"After achieving our first ever Silver Award in 2009, and following on with four consecutive Gold Awards, then two Gold Medals over the last two years, I felt that we should enter for a 'Major Industry Sector' Award at the Annual RoSPA Awards. It was with great delight that in April of this year a result notification was issued for NI Water, affirming what our organisation has achieved over the last year in the management and improvement of safety and health in our workplaces. There were a total of 29 entrants to the 'Water Industry Sector' award this year, covering utilities, contractors and service providers, from which there was one winner and one commended organisation. NI Water received the latter award."

Natural environment

We want to protect and enhance the natural environment

Key Highlights

1. 22 of the 23 bathing waters met the European standards.

2. Constructed three sustainable wastewater treatment works.

3. Completed seven Catchment Management Plans.

Principal risks/opportunities

PR2 PR3 PR4 OP3 OP4

Page 19 Read more about principal risks and opportunities.

SPI	Unit of measurement	Customer promise	Target 2016/17	Actual 2016/17	Pass / Fail	Target 2017/18
Cumulative number of sustainable WwTW solutions delivered (population equivalent (p.e.) ≥ 250)	Number		1	2		2

Bathing waters

In 2016, 22 of the 23 identified bathing waters met the new stricter European standards for bathing water quality. 11 met the highest European Union standard, being classed as having 'Excellent' water quality. A further nine were classed as having 'Good' water quality and two as having 'Sufficient' water quality. Ballyholme, Co. Down, was classed as having 'Poor' water quality. NI Water continues to deliver planned investment in the Bangor catchment, which will contribute to improvements in bathing water quality.

Sustainable Wastewater Treatment Works

We have constructed three sustainable wastewater treatment works in the first two years of PC15 (2 ≥ 250p.e., 1 < 250p.e.). One of those was in Castle Archdale, Co. Fermanagh.

The wetland was completed in April 2016, and has resulted in a 100% reduction in electricity usage when compared to the old aerated wastewater treatment works, which has now been fully decommissioned. The wetland uses no power from the grid. Solar panels installed on site, charge on site batteries, which in turn power the flowmeter and report to telemetry.

Catchment Management Plans

Diffuse water pollution and insensitive land management may pollute surface and ground water supplies with substances such as nutrients, pesticides and microbial pathogens. These unwelcome substances increase the capital and operating costs of water treatment, increase the quantity of effluent and waste produced, and increase the carbon footprint of the industry.

Where such risks are identified in drinking water catchments, NI Water aims to implement catchment management schemes that improve raw water quality, enhance water resources, and reduce future catchment-based risks to raw water quality and quantity.

We also want to meet NI Water's obligations as a responsible landowner whilst adopting an approach which gives a sustainable reduced cost for treating water to a high quality.

Seven Catchment Management Studies have been completed achieving the 2016/17 target. The Catchment Management Studies will inform where future projects are possible to sustainably improve raw water quality and the environment.

In addition, NI Water has successfully bid for and been awarded €4.9m of EU INTERREG VA funding for a cross border project which will be known as the 'Source to Tap' project. Focusing on the Erne and Derg cross border catchments it will be carried out in partnership with Irish Water, AFBI, Ulster University, The Rivers Trust and East Border Region. Working together, the project team will engage with the community to increase awareness of the importance of protecting drinking water supplies; pilot best practice forestry measures; restore peatland on riverside stretches formerly used for forestry and pilot a land incentive scheme to reduce contaminants such as pesticides and sediments from getting into watercourses. Together this information will be used to assess the benefits of sustainable catchment management and to produce a plan to help manage cross border drinking water sources in the future.

We are undertaking a trial project to protect Seagahan Reservoir near Markethill in Co. Armagh, a valuable water source. This will involve a free weed-wiping service being delivered to farmers in the summer of 2017 and 2018, to improve the surrounding catchment area and reduce the levels of the herbicide MCPA.

NI Water, The Woodland Trust and The Loughs Agency collaborated on a project to stabilise the banks of Glenedra River, Co. L'Derry by undertaking the planting of 5,742 native broadleaf trees in a riparian zone along the river. This type of project enhances environmental habitats and has a positive impact on water quality.

Climate change

We adapt to deal with the effects of climate change

Key Highlights

1. The annual carbon emissions resulting from activities of the Company have decreased by 8%.

2. New technology being rolled out across 200 sites to improve resilience in extreme weather.

3. Delivered seven hectares of storm water separation.

Principal risks/opportunities

PR2 PR3 OP1 OP3 OP4

Page 19 Read more about principal risks and opportunities.

SPI	Unit of measurement	Customer promise	Target 2016/17	Actual 2016/17	Pass / Fail	Target 2017/18
Percentage of NI Water's power usage derived from renewable sources	%		25.0	35.5		30.0

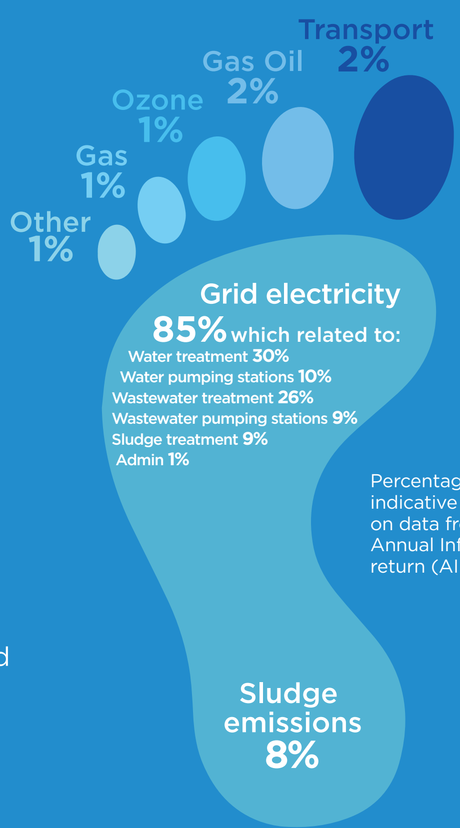
The majority of our carbon emissions are from grid electricity, with the remaining emissions being attributed to areas such as sludge emissions and transport.

The annual carbon emissions resulting from activities of the Company have decreased by 8%, decreasing from 163,207 t/CO_2e in 2015/16 to 149,755 t/CO_2e in 2016/17. This equates to 0.143 tonnes of carbon dioxide equivalent per million litres of treated water in 2016/17 (2015/16: 0.223 tCO_2e/Ml) and 0.574 tonnes of carbon dioxide equivalent per million litres of treated wastewater in 2016/17 (2015/16: 0.659 tCO_2e/Ml).

The annual carbon emissions resulting from the purchase of electricity have decreased by 13%, decreasing from 135,863 t/CO_2e in 2015/16 to 118,269 t/CO_2e in 2016/17.

The main influencing factors include: overall reduction in kWhrs; reduction in emission factors; and changes in how green electricity purchased from the grid has been accounted for in the Carbon Accounting Workbook (CAW).

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



Percentages are indicative and based on data from the 2017 Annual Information return (AIR17).

Energy conservation

A dedicated energy efficiency programme has been initiated during PC15. The objectives of the efficiency programme are to reduce consumption (kWhr), move consumption from peak tariff rates to off peak tariffs, increase income (from mainly government schemes) and reduce our greenhouse gas emissions.

Resilience - Digital investment

Following a successful pilot, we have commenced installation of an integrated approach to the control of our Service Reservoirs using Instrumentation Control Automation and Telemetry. This digital technology will help us to manage the amount of water going into supply when faced with adverse weather events, e.g. drought. A programme to roll out this technology to over 200 sites is underway in the PC15 period.

Storm water separation

During PC15, we plan to remove the equivalent of 19 hectares of impermeable area surface water runoff from the combined sewerage systems. The benefits of surface water removal include freeing up system capacity, reducing out-of-sewer flooding risks and reducing wastewater pumping and energy requirements with associated reductions in maintenance activities and carbon emissions. The 'Olympia Leisure Centre and Windsor Park Storm Sewer Project' in Belfast is one of a variety of projects aimed at reducing the volume of storm water discharged annually to NI Water's sewerage networks.

Areial photo of the new storm sewer during construction at Donegal Avenue Belfast, Co. Antrim.

Olympia Leisure Centre and Windsor Park Storm Sewer Project

Artists impression of Windsor Park Stadium.

The re-development of the Windsor Park Stadium and construction of the new Olympia Leisure Centre required NI Water to provide a new storm sewer to remove approximately seven hectares of impermeable area from the combined sewer network.

The new storm sewer has been laid from the Windsor Park and Olympia sites, along Olympia Drive and Donegal Avenue.

The total impermeable area removed from the combined sewer is 70,500 m^2 (7.05 hectares).

Value for money

We seek to give you value for money

Key Highlights

1. Water and sewerage tariffs frozen for 2016/17 and a lower than allowed increase applied in 2017/18.

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

3. Continued investment in innovative solutions.

Principal risks/opportunities

PR1 PR2 PR5 OP3

Page 19 Read more about principal risks and opportunities.

SPI	Unit of measurement	Customer promise	Target 2016/17	Actual 2016/17	Pass / Fail	Target 2017/18
Overall performance assessment (OPA)	Number	£	221	228		224

Customer tariffs

Non-domestic water and sewerage charge increases were again held below the rate of inflation. The average increase in 2017/18 of 1.65% means customers will still be paying 12% less, in real terms, for their water and sewerage services than they did five years ago.

The amount by which NI Water can increase customer tariffs is determined by the Utility Regulator, and indeed we could have increased tariffs by up to 2.56%, on average, in 2017/18. NI Water was able to hold water and sewerage tariffs with no increase in 2016/17; however since then inflation has risen steadily, creating pressure on our operating cost base. We have been able to ensure that not all of this inflationary pressure has been passed on to our customers.

Levels of service and efficiency

The overall level of service delivered to our customers remains at historically high levels. We achieved an OPA score of 228 against a 2016/17 target of 221. The OPA score is a composite score used by the Utility Regulator to assess NI Water's levels of service.

There was a reduction in day-to-day running costs of 2% (£3.2m) in 2016/17, and a 30% (£65m) 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% in 2014/15. The methodology for measuring efficiencies and setting efficiency targets is being revised by the Utility Regulator in advance of the next price control (PC21).

Innovation

We are committed to investment in innovation through new systems and digital technologies that provide benefits in terms of reducing day-to-day running costs and improving service performance. During 2016/17, we introduced an unmanned waterborne vehicle. During 2017/18, our programme will include exploring energy recovery options from our network.

NI Water's unmanned waterborne vehicle

Our unmanned waterborne vehicle is used to conduct bathometric surveys of impounding reservoirs. Using GPS guidance it navigates a predefined grid pattern across the reservoir surface taking a depth reading every second and logging the data along with latitude and longitude coordinates. The data from the survey can be processed to create a 3D model of the reservoir bottom and from this an accurate volume of the reservoir can be calculated. With this information we know the exact volume of water remaining in a reservoir at any given depth, which is crucial for water management strategy in the event of a drought situation.

Our finances explained

Revenue

Government subsidy

We receive subsidy from the DfI in lieu of deferred domestic charges. In 2016/17 we received a subsidy of £284.4m.

Bills

We bill non-domestic customers which generated £73.8m of revenue in 2016/17 and Road Drainage charges of £20.6m from DfI.

Other income

Other forms of income were £43.6m in 2016/17.

Day-to-day operating costs

Our day-to-day running costs totalled £256.8m in 2016/17. These costs include staff, power, rates, hired and contracted services.

Operating profit

Operating profit (revenue less day-to-day operating costs) was £166.4m in 2016/17.

Financing our investment

Interest on our borrowings from DfI (£43.6m) and our Public Private Partnership liabilities (£19.8m) comprised the majority of our net finance charges of £63.5m in 2016/17.

Profit before tax

The profit before tax was £102.9m in 2016/17.

Corporation Tax

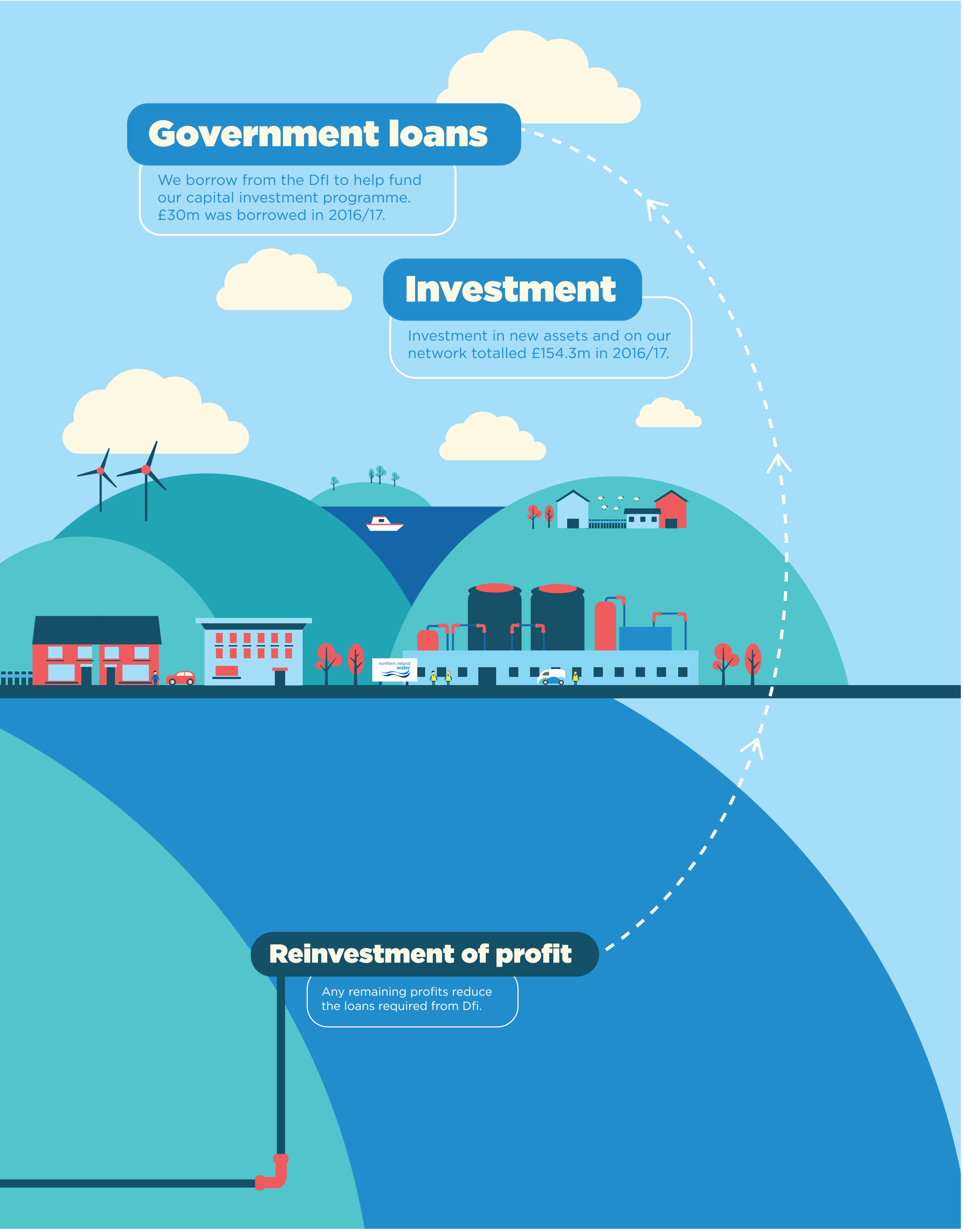
We have not paid any corporation tax due to capital allowances, which defer our tax to future years, when the benefits of the investments are realised. The tax charge was £6.6m in 2016/17.

Profit after tax

The profit for the year was £96.3m.

Dividend

A dividend of £23.3m was paid to the DfI in 2016/17.


Government loans
We borrow from the DfI to help fund our capital investment programme. £30m was borrowed in 2016/17.
Investment
Investment in new assets and on our network totalled £154.3m in 2016/17.
Reinvestment of profit
Any remaining profits reduce the loans required from Dfi.

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 68 to 122
Read our statutory Accounts.

The Regulatory Accounts are published separately.
See the latest Regulatory accounts at: https://www.niwater.com/publications/

The £96.3m profit for the year is an accounting profit and provides no additional spending power either to NI Water or to DfI.

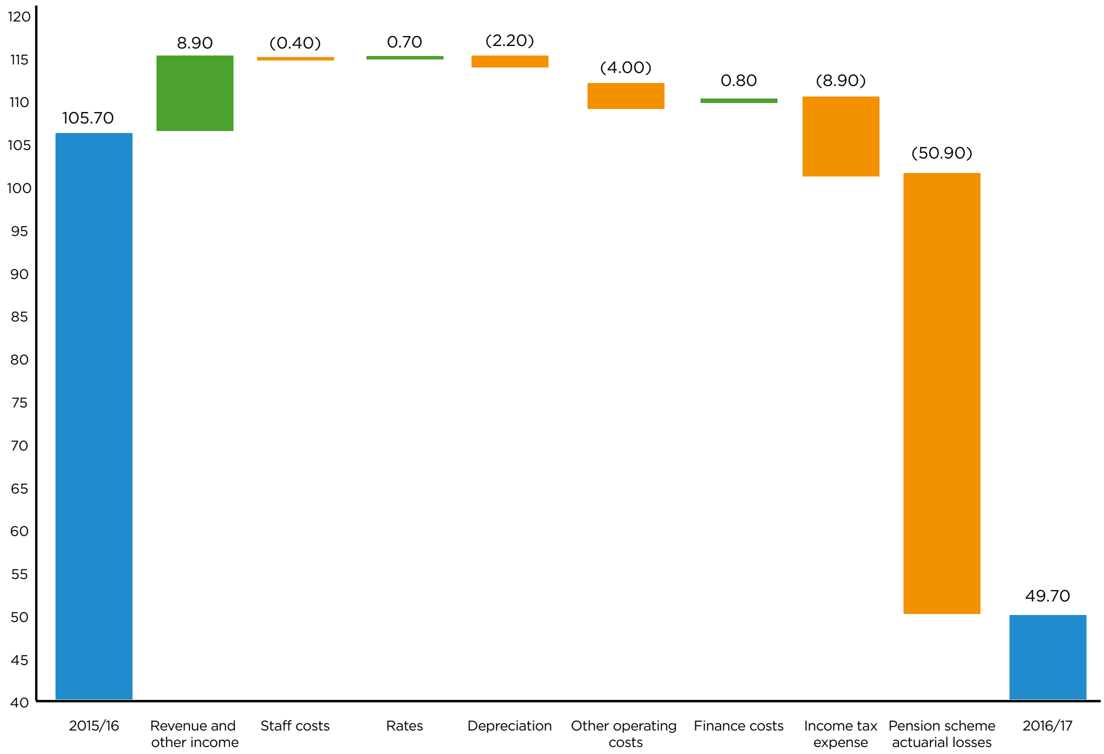
Statement of Comprehensive Income

Our Statement of Comprehensive Income as presented on page 70 is summarised below.

Summary Statement of Comprehensive Income

	Year to 31 March 2017 (£m)	Year to 31 March 2016 (£m)
Revenue	422.4	413.5
Results from operating activities	166.4	163.4
Net finance charges	(63.5)	(64.3)
Profit before tax	102.9	99.1
Income tax (expense) / credit	(6.6)	2.3
Profit for the year	96.3	101.4
Other comprehensive (expenditure) / income, net of income tax	(46.6)	4.3
Total comprehensive income for the period	49.7	105.7

Movement in total comprehensive income for the period



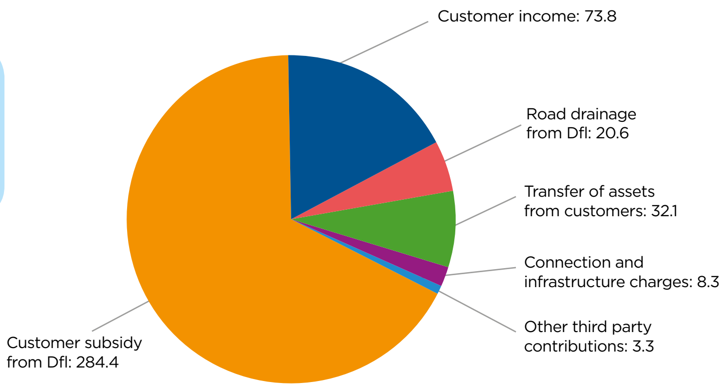
Revenue

Domestic consumers are not charged directly for water and sewerage services. As a result, NI Water is dependent on Government subsidy for around 67% of its total revenue.

The **customer subsidy** from Government covered the full domestic charge and this arrangement will remain in place in 2017/18.

Revenue was £422.4m for the year to 31 March 2017 (2016: £413.5m). Included in revenue was £305.0m (2016: £303.5m) received from DfI, being subsidy of £284.4m (2016: £283.5m) and road drainage charges of £20.6m (2016: £20.0m).

Sources of revenue 2016/17 (£m)



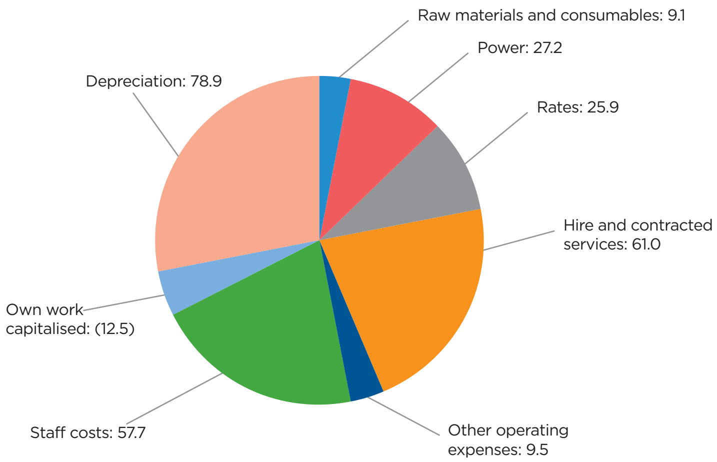
See Statutory Accounts Note C1.

Operating activities

Operating expenses in 2016/17 of £256.8m (2016: £251m) increased from last year. The increase primarily resulted from higher depreciation and higher hired and contracted service costs, offset in part by lower power costs.

Results from operating activities before interest for the year was £166.4m (2016: £163.4m).

Operating expenses 2016/17 (£m)



See Statutory Accounts Note D1.

NI Water is one of the largest users of electricity in Northern Ireland. We spent around **£27m** on **power** in 2016/17.

Page 41
Read more about the use of innovation and new technology to deliver efficiencies.

Finance income and costs

The net finance costs are primarily due to interest on our borrowings of £43.6m (2016: £43.9m) and on our Public Private Partnership (PPP) liabilities of £19.8m (2016: £20.1m) and net finance costs on the pension fund of £0.2m (2016: £0.4m) partly offset by bank interest received of £0.1m (2016: £0.1m). See Statutory Accounts Note B2.

Taxation

The tax charge for the year was £6.6m (2016: credit of £2.3m) which takes account of a reduction in the rate of corporation tax. The effective tax rate for the year to 31 March 2017 was (6.4%) (2016: 2.3%). See Statutory Accounts Note F1.

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

Distributions

The Board will consider a proposal to declare a dividend of £24.5m in July 2017 (2016: £23.3m). See Statutory Accounts Note B3.

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

NI Water staff collecting the GO Procurement Team of the Year Award. The award recognised the use of category management to improve how we buy goods and services and manage our contracts.

Capital structure

The Statement of Financial Position at 31 March 2017 as presented on page 69 is summarised below.

Total assets increased by 4.0% to £2,928m (2016: £2,816m).

Our net debt[8] figure was £1,218.6m at 31 March 2017 (2016: £1,193.1m).

Gearing (the ratio of net debt to equity and net debt) was 48.4% (2016: 48.4%).

Summary Statement of Financial Position

	At 31 March 2017 (£m)	At 31 March 2016 (£m)
Total non-current assets	**2,887.3**	2,776.2
Total current assets	**41.0**	39.5
Total Assets	**2,928.3**	2,815.7
Equity	**1,300.8**	1,274.4
Total non-current liabilities	**1,484.4**	1,404.2
Total current liabilities	**143.1**	137.1
Total liabilities	**1,627.5**	1,541.3
Total equity and liabilities at 31 March	**2,928.3**	2,815.7

Liquidity

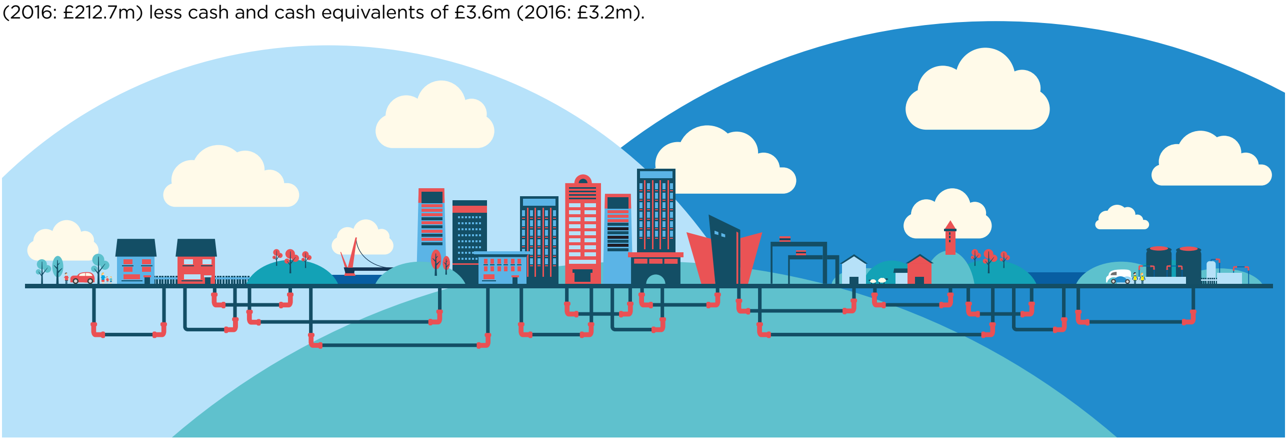
Operating activities generated a net cash inflow of £212.6m (2016: £195.8m). Net cash outflows of £147.8m (2016: £134.8m) related to investing activities. Net financing activities created a cash outflow of £64.3m (2016: £58.8m).

Our working capital requirements are met from a committed working capital facility of £20m and from available positive cash balances. Interest is accrued on the working capital facility at floating interest rates based on London Inter-bank Offered Rates (LIBOR).

Investing activities included the acquisition of **property, plant and equipment of £149.0m** (2016: £136.6m), proceeds from the sale of property, plant and equipment of £1.1m (2016: £1.7m) and interest received of £0.1m (2016: £0.1m).

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

[8]Refer to notes A7 and B1 in the Statutory Accounts. Net debt consists of loans of £1,013.6m (2016: £983.6m) and finance leases of £208.6m (2016: £212.7m) less cash and cash equivalents of £3.6m (2016: £3.2m).



Pension funding

The pension scheme was valued at a liability of £66.0m at 31 March 2017 (2016: liability of £7.2m). This was made up of a total market value of assets of £239.7m (2016: £207.6m) less actuarial value of liabilities £305.7m (2016: £214.7m). The increase in the liability has been driven primarily by actuarial losses arising from a decrease in the discount rate assumption on fund obligations offset somewhat by actuarial gains on the assumptions on performance of fund assets. See Statutory Accounts Note E1.

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

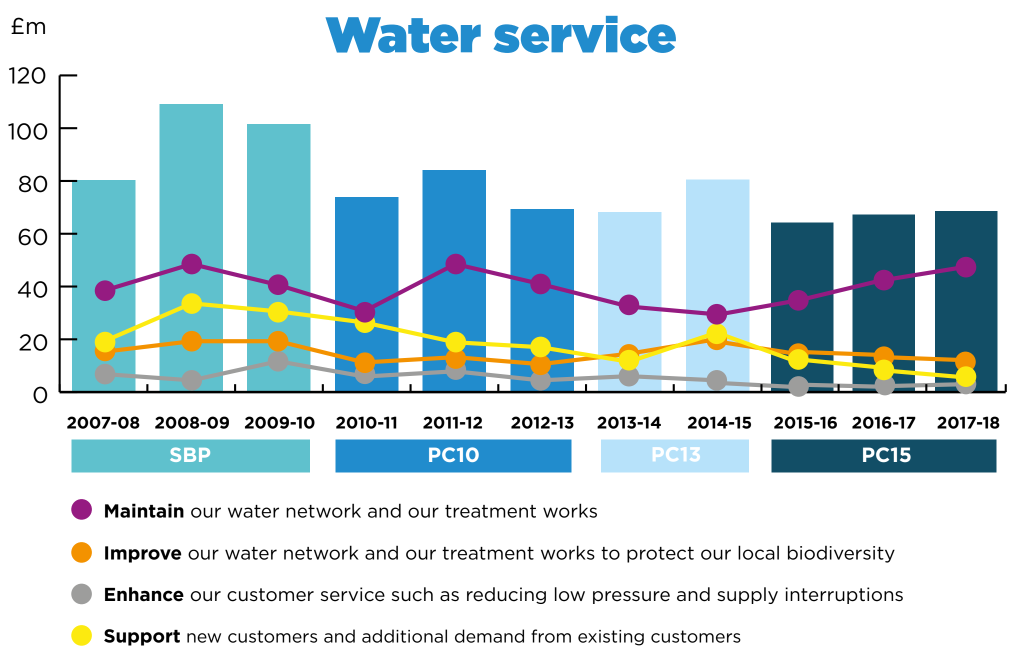
Investing in our water and wastewater infrastructure

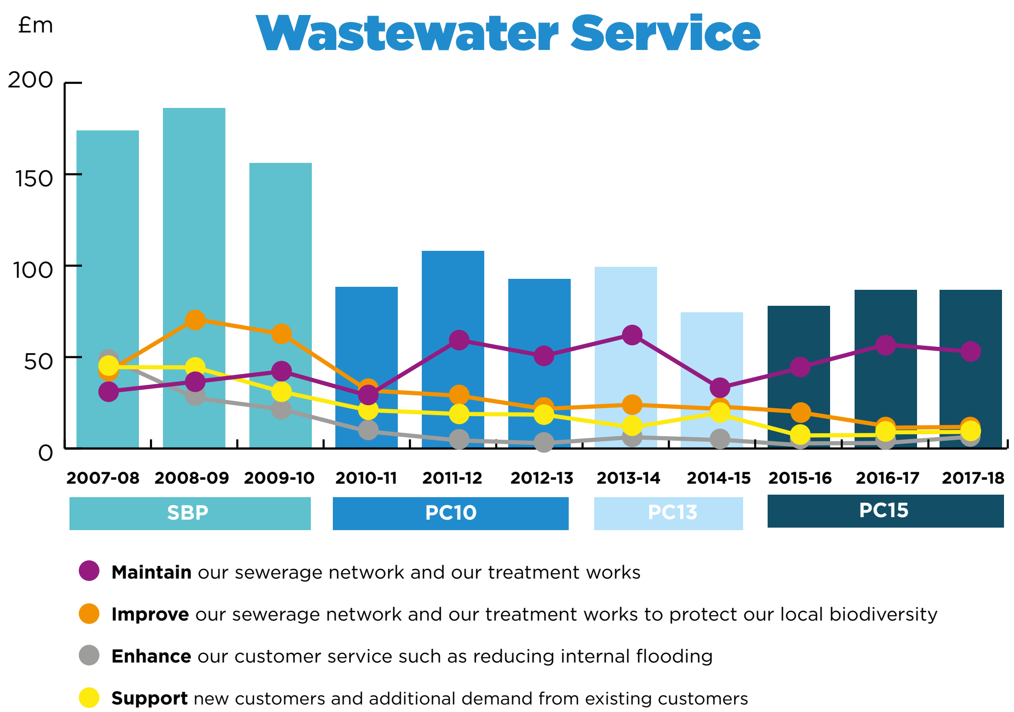
We have invested £1.9 billion in Northern Ireland's water and sewerage infrastructure since our formation in 2007/08.

Around £154.3m of capital investment was delivered during 2016/17. The Company spent around £99.7m in 2016/17 on maintaining the current assets. Around a further £54.6m was spent to deliver quality enhancements, improve service and accommodate growth. Investment of £155m is planned for 2017/18.

Investment in 2016/17 included the completion of **2 Wastewater Treatment Works**, remediation of **11 unsatisfactory intermittent discharges** and laying approximately **172km of new, renewed and relined water mains**.

Construction of Ballycastle wastewater treatment works, Co. Antrim.





This Strategic Report was approved by the Board of Directors on 27June 2017 and signed on its behalf by Mark Ellesmere, Company Secretary.

Mark Ellesmere
Company Secretary
27 June 2017

Governance

Daniel Macklin, one of NI Water's analysts, demonstrating how testing of drinking water samples is undertaken at Westland House laboratory, to a pupil from Belfast Model School for Girls.

Corporate governance

Chairman's introduction

I am pleased to present the Corporate Governance Report for 2016/17. 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 NDPB sponsored by DfI. The Board is committed to the principles of good corporate governance.

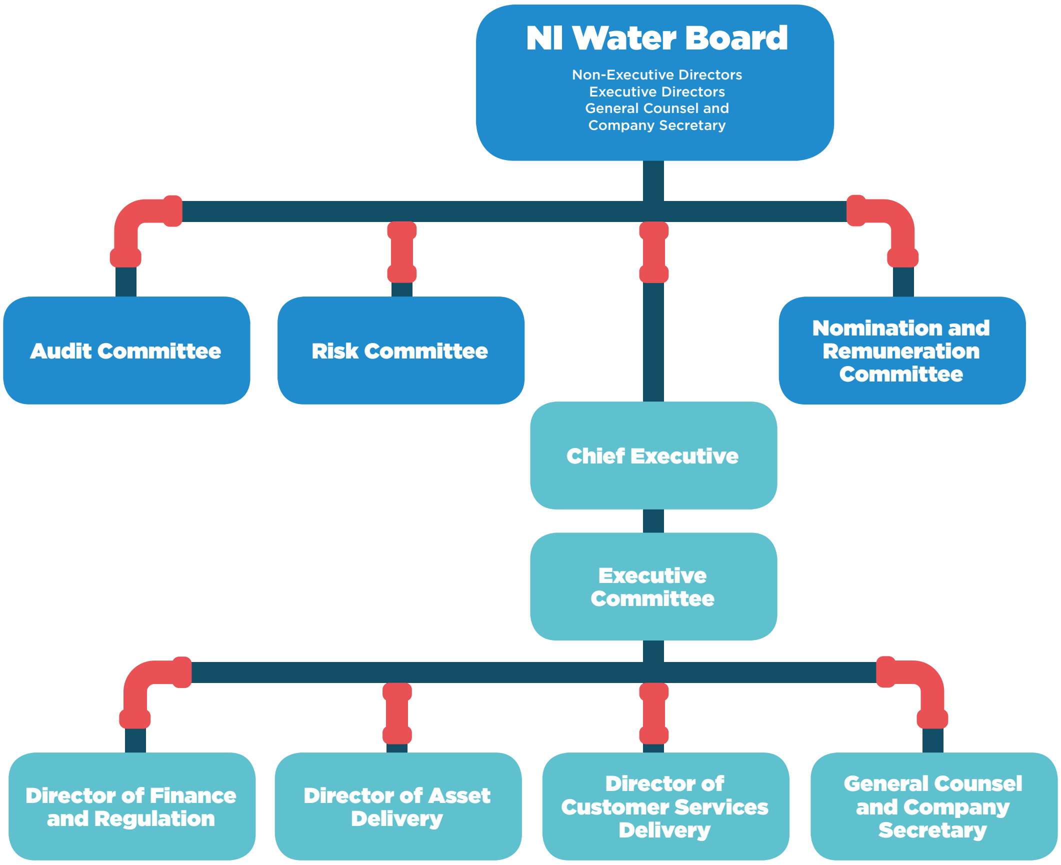
Compliance statement

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 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 and its responsibilities are outlined in the MSFM:

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

Board committees

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

Committee	Membership
Audit Committee	**Peter McNaney, CBE (Chair)**
	Jim McCall
	John Rae
	Maurice Bullick (Co-opted Member from 20 July 2016 to ensure that the Audit Committee has recent and relevant financial experience)
Risk Committee	**John Rae (Chair)**
	Kingsley Donaldson
	Trisha McAuley, OBE
Nomination and Remuneration Committee	**Dr Leonard J. P. O'Hagan, CBE (Chair)**
	Peter McNaney, CBE
	John Rae

Length of service

The time served by Board members is shown below:

	Length of service as at 31 March 2017 (full years)	Date of appointment	Date of cessation
Dr Leonard J. P. O'Hagan, CBE	2	1 April 2015	31 March 2019
John Rae	5	22 August 2011	31 July 2019
Peter McNaney, CBE	1	1 August 2015	31 July 2019
Jim McCall	1	1 August 2015	31 July 2019
Trisha McAuley, OBE	1	1 August 2015	31 July 2019
Kingsley Donaldson	1	1 August 2015	31 July 2019
Sara Venning	6	21 May 2010	n/a
Ronan Larkin	11	19 September 2005*	n/a
Sean McAleese	2	12 January 2015	n/a
Mark Ellesmere	10	26 June 2006*	n/a
Paul Harper	-	01 January 2017	n/a

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

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 2016/17 including the agreement of a budget and revised outputs for the year with stakeholders. The Committee was also kept appraised of the proposed Operating Plan and Budget for 2017/18 and ongoing liaison with DfI to reach a medium term settlement for future years;
- **Risk relating to Pension Scheme**: the Audit Committee considered the funding position of the Company's defined benefit Pension Scheme in the light of changes in market conditions;
- **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. The Committee was also kept appraised of ongoing discussions 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 Auditors (KPMG) at least four times in the year. The Committee and the External Auditors also held separate meetings without the attendance of executive management. In their assessment of the independence of the External Auditors, the Committee received in writing details of relationships between the External Auditors and the Company, which may bear on the External Auditors' independence and received confirmation of this independence

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

Corporate Governance and Business Reporting review

During the year, KPMG undertook a review of NI Water's Corporate Governance and Business Reporting arrangements. The review included a benchmarking exercise with a peer group of companies and identified a number of areas of best practice, which the Company will look to adopt over the remainder of PC15.

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

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See note D1 to the Statutory Accounts for the fees relating to audit and non-audit services. The ratio between the audit and non-audit services is 2.5 (2016: 8.5). There was an increase in non-audit services in 2016/17 relating to a review of Corporate Governance and Business Reporting.

The Audit Committee approved the Internal Audit Strategy, which includes reviews on Corporate Governance. The Committee also monitored completion of the 2016/17 audit plan. The Head of Internal Audit provided a progress report to each Audit Committee meeting, which included an overview of audit review findings, follow up status of recommendations and summary of any advisory activity. The Head of Internal Audit had the opportunity to meet with the Chairman of the Audit Committee without management to discuss 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.

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Audit Committee's Terms of Reference (approved by the Board). As Chair of the Audit Committee, I provided a report to the Board after every meeting on the work of the Committee.

Report by John Rae,

Chair of the Risk Committee

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

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

- consider all corporate risk and opportunity maps over the financial year and the actions towards the achievement of the customer promises;
- customer service improvements and key performance indicators;
- improvements relating to health, safety and well-being;
- Environmental Compliance Framework including drinking water regulation and environmental management;
- NI Water's resilience, exercises and incident management of Major Incident Plans, IT Recovery Plans and Business Continuity plans;
- cyber security risk, industrial control systems and confidentiality of data management; and
- diversity and equality within NI Water.

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 corporate 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 and to local universities in relation to research, development and innovation regarding risk and opportunity management.

NI Water was awarded the Chartered Institute of Public Finance & Accountancy NI award in 2016 for 'Innovation, Improvement and Public Finance Best Practice' regarding opportunity risk 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 June 2016.

Refer to the Directors' remuneration report on page 62 in relation to the work of the Nomination and Remuneration Committee.

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 G4 to the Statutory Accounts.

Performance and effectiveness reviews

The next Board effectiveness review is planned for 2017/18.

Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2016/17 are shown below:

	Board meeting			Audit Committee			Risk Committee			Joint Audit Committee and Risk Committee			Nomination and Remuneration Committee		
	Held[3]			Held[3]			Held[3]			Held[3]			Held[3]		
	Total	Available to attend[4]	Attended	Total	Available to attend[4]	Attended	Total	Available to attend[4]	Attended	Total	Available to attend[4]	Attended	Total	Available to attend[4]	Attended
Dr Leonard J. P. O'Hagan, CBE	11	11	11	-	-	-	-	-	-	-	-	-	2	2	2
John Rae	11	11	11	4	4	3	3	3	3	1	1	1	2	2	2
Peter McNaney, CBE	11	11	11	4	4	4	-	-	-	1	1	1	2	2	2
Jim McCall	11	11	7	4	4	4	-	-	-	1	1	-	-	-	-
Trisha McAuley, OBE	11	11	10	-	-	-	3	3	2	1	1	1	-	-	-
Kingsley Donaldson	11	11	9	-	-	-	3	3	3	1	1	1	-	-	-
Sara Venning	11	11	11	4	4	4	3	3	3	1	1	1	-	-	-
Ronan Larkin	11	11	11	4	4	4	3	3	3	1	1	1	-	-	-
Sean McAleese	11	11	11	-	-	-	3	3	3	1	1	1	-	-	-
Mark Ellesmere	11	11	11	4	4	4	3	3	3	1	1	1	2	2	2
Paul Harper	11	3	3	-	-	-	3	-	-	1	-	-	-	-	-

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

[4] These columns reflect the fact that one Director was appointed to the Board, during the year, therefore was not available to attend all meetings (see 'Length of Service' section on page 52).

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/

Governance statement

Introduction

The Governance section on pages 51 to 55 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 51 to 55, 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 vision and customer promises. I am also responsible for safeguarding the public funds and the Company's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in MPMNI, and as specified in the MSFM.

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

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

Governance Framework

The system of internal control is designed to manage risk and opportunity to a reasonable level, and to achieve the Company's vision and customer promises. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is supported by a risk management framework to provide an ongoing process to identify and prioritise the risks to the achievement of the customer promises, to evaluate the likelihood and the impact should they be realised, and to manage them efficiently, effectively and economically. The leadership team also considers opportunities for making improvements over the year to achieve better outcomes for our customers and improve 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 2017 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 a benchmark of risks and opportunities 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 horizon scanning.

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 and opportunity registers have clearly defined owners. These registers were reviewed on a continual basis using risk management software, with monthly reports generated for monitoring purposes. A detailed risk and opportunity map was used to identify the consequences, controls and required actions and was presented to the Risk Committee and Board. Corporate risks and opportunities 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 and opportunities can also be escalated to senior management's attention when risks and opportunities are graded as 'high' or 'medium'. An established escalation process is also in place to alert the Chief Executive, Board and Stakeholders of significant new issues.

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

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 and opportunities which impact upon them.

Key risks materialising in year

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

Internal Audit

The Head of Internal Audit provided an 'Annual Opinion' on NI Water's system of governance, risk management and internal control. The opinion for the year ended 31 March 2017 is 'Satisfactory': 'While there is some residual risk identified this should not significantly impact on the achievement of objectives'.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of corporate governance, internal control and risk management. My review is informed by the work of managers within NI Water, who have responsibility for the development and maintenance of the internal control framework. I am also informed by other independent sources of assurance. I have been advised 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 and opportunities. The External Audit opinion for the Statutory, Regulatory and Regularity audits are all 'unqualified' and there is an effective process to manage closure of Management Letter Points raised by the External Auditors.

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

Chief Executive's Year End Assurance Statement – Exception Report

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

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

Sara Venning
Accounting Officer
27 June 2017

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2017.

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 2017. 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; and
- 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 not accept the PC15 Final Determination in the circumstances.

NI Water engaged positively with the Utility Regulator and the Department to agree changes to 2016/17 regulatory outputs due to the reduction in public expenditure funding in 2016/17. On 1 June 2016, the Utility Regulator confirmed acceptance of NI Water's proposals for adjusted outputs for 2016/17:

- DfI has indicated that the 2017/18 budget allocation for NI Water might fall below PC15 Final Determination. If that is the case a similar process will be undertaken to agree changes to 2017/18 regulatory outputs; and
- 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.

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. The return is set in the PC15 Final Determination. Payment of any dividend is subject to the Company having sufficient distributable profits. Refer to the principal risks and opportunities (page 19) for factors which could impact on the amount of distributable profits.

It is anticipated that a final dividend of £24.5m for the year ended 31 March 2017 (2016: £23.3m[5]) will be approved by the Shareholder upon the recommendation of the Board in July 2017 and paid in August 2017 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2017.

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 52.

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 2017, was 32.3 days (2016: 31.7 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 2017, the year to date ratio stood at 11.1 days (2016: 11.4 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 £0.3m on research and development in 2016/17 (2016: £0.2m). Refer to note G1(d)(i) to the financial statements for the accounting treatment.

Employees

The Company uses an increased range 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 continues to oppose all forms of unlawful and unfair discrimination. It remains 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 2017, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of 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.

[5]This dividend in respect of the year ended 31 March 2016 was paid in August 2016.

Greenhouse gas emissions

Details on greenhouse gas emissions are included on page 38.

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
27 June 2017

Directors' remuneration report

Nomination and Remuneration Committee

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

Board appointments and diversity

The Nomination and Remuneration Committee has responsibility for considering the size, structure and composition of the Board 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. The Shareholder appoints the Chair and all other Non-Executive Board members and participates in and approves the appointment of all executive Directors to the Board.

Remuneration policy

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 ongoing success of the business. Consistent with this policy, and in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006, the benefit packages awarded by NI Water to Executive Directors and Executives are intended to be competitive, and under the policy should comprise base salary, and a discretionary performance related bonus designed to incentivise Directors and align their interests with those of the Shareholder. The remuneration consists of the following elements:

Base salaries

Under the policy, base salaries for each Executive Director and Executive should be reviewed annually taking into account inflation. Notwithstanding this policy the Company has been subject to public sector pay policy in 2016/17 as a result of the Northern Ireland Executive's decision to apply the UK Government's pay policy for public sector staff.

Annual bonus

There was no bonus scheme in 2016/17 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[6] per day and the Non-Executive Directors receive a fee of £750[7] 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 56.

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.

[6]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.
[7]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.

Fees paid to members of the Executive Committee

	Year to 31 March 2017					Year to 31 March 2016				
Current Executive Directors:	**Salary and allowances £000**	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Pension benefits[8] £000**	**Total £000**	**Salary and allowances (restated) £000**	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Pension benefits (restated) £000**	**Total (restated) £000**
Sara Venning	150 – 155	-	-	62	210 - 215	145 - 150	-	-	60	205-210
Ronan Larkin	115 – 120	-	-	37	150 - 155	115 - 120	-	-	45	160-165
Sean McAleese	110 – 115	-	-	39	150 - 155	110 - 115	-	-	15	125-130
Paul Harper	25 - 30[9]	-	-	10[10]	35 - 40	-	-	-	-	-
Current member of the Executive Committee (not Executive Director):										
Mark Ellesmere	110 - 115	-	-	45	155 - 160	110 - 115	-	-	54	160-165
Former Executive Director:										
George Butler	-	-	-	-	-	40 - 45[11]	-	-	51[12]	90-95
Former members of the Executive Committee:										
Bill Gowdy, OBE[13]	95 – 100	-	-	26	120 - 125	95 - 100	-	-	29	120-125
Martin McIlwaine	70 - 75[14]	-	-	18[15]	85 - 90	65 - 70[16]	-	-	6[17]	70-75

8 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.

9 £105k - £110k on a full year equivalent basis. Paul Harper was appointed as Director of Asset Delivery on 1 January 2017.

10 The value of all pension related benefits are assessed over the period from 1 January 2017, the date on which he was appointed as a Director, to 31 March 2017.

11 £115k - £120k on a full year equivalent basis. George Butler ceased to be Director of Asset Management on 5 August 2015.

12 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.

13 Bill Gowdy, OBE ceased to be a member of the Executive Committee on 7 April 2017.

14 £85k - £90k on a full year equivalent basis. Martin McIlwaine ceased to be Interim Director of Asset Management on 14 January 2017.

15 The value of all pension related benefits are assessed over the period from 1 April 2016 to 14 January 2017, the date on which he ceased to be a member of the Executive Committee.

16 £85k - £90k on a full year equivalent basis. Martin McIlwaine was appointed as Interim Director of Asset Management on 11 July 2015.

17 The value of all pension related benefits are assessed over the period from 11 July 2015, the date on which he was appointed as Interim Director, to 31 March 2016.

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 (2016: £145k to £150k). This was 4.98 times (2016: 4.93 times) the median remuneration of the workforce, which was £30,345 (2016: £30,383). The marginal change in the pay multiple (ratio) between 2016/17 and 2015/16 was primarily due to higher overtime costs in 2015/16, resulting in a small reduction in the median remuneration payable in 2016/17.

	Year to 31 March 2017 Total	Year to 31 March 2016 Total (restated)
Highest paid Director (£'000)	150 – 155	145 - 150
Median total remuneration (£)	30,345	30,383
Pay multiple (ratio)	4.98	4.93
Range of remuneration (£'000)	13 - 151	13 - 150

The 2015/16 figures have been restated to remove the 2014/15 element of the pay uplift paid in 2015/16.

Fees paid to Non-Executive Directors

	Year to 31 March 2017				Year to 31 March 2016			
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	40 - 45	-	-	40 - 45
John Rae	15 - 20	-	-	15 - 20	15 - 20	-	-	15 - 20
Peter McNaney	15 - 20	-	-	15 - 20	10 – 15[18]	-	-	10 - 15
Jim McCall	15 - 20	-	-	15 - 20	10 – 15[18]	-	-	10 - 15
Trisha McAuley	15 - 20	-	-	15 - 20	10 – 15[18]	-	-	10 - 15
Kingsley Donaldson	15 - 20	-	-	15 - 20	10 – 15[18]	-	-	10 - 15
Former Non-Executive Director:								
Kevin Steele	-	-	-	-	5 – 10[18]	-	-	5 - 10
Deep Sagar	-	-	-	-	5 – 10[18]	-	-	5 - 10
Jim Stewart, CBE	-	-	-	-	5 - 10[18]	-	-	5 - 10

[18] 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 notes E2 and G3 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 Technical Actuarial Standards issued by the Financial Reporting Council. The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the Director's pension benefit. Transfer values do not represent sums payable to individual Directors and therefore cannot be added meaningfully to annual remuneration.

Increase in transfer value less Directors' contributions

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

Pension benefits for members of the Executive Committee

Current Executive Directors:	Accrued pension at age 60 at 31 March 2017 [19] £000	Related lump sum at 31 March 2017 [19] £000	Real increase in pension at age 60 £000	Real increase in lump sum at age 60 £000
Sara Venning	15 - 20	15 - 20	2.5 – 5.0	7.5 – 10.0
Ronan Larkin	20 - 25	-	0 – 2.5	-
Sean McAleese	50 - 55	155 - 160	0 – 2.5	5.0 – 7.5
Paul Harper	0 – 2.5	0 – 2.5	0 – 2.5	0 – 2.5
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	20 - 25	10 - 15	0 – 2.5	5.0 – 7.5
Former members of the Executive Committee:				
Bill Gowdy, OBE	10 - 15	35 - 40	0 – 2.5	2.5 – 5.0
Martin McIlwaine	40 - 45	120 - 125	0 – 2.5	2.5 – 5.0

[19] Or date of leaving the Executive Committee if earlier.

Pension (CETV) benefits for members of the Executive Committee

Current Executive Directors:	CETV at 31 March 2017[20] £000	CETV at 31 March 2016[21] £000 (restated)	Increase/(decrease) in transfer value less Director's contribution (net of inflation[22]) £000	Employer contribution (to nearest £100)
Sara Venning	554	377	72	37,200
Ronan Larkin	754	572	64	28,700
Sean McAleese	2,034	1,679	78	27,300
Paul Harper	13	-	13	6,700
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	777	480	54	27,300
Former Executive Director:				
George Butler	-	613	-	-
Former members of the Executive Committee:				
Bill Gowdy, OBE	377	322	26	23,700
Martin McIlwaine	1,470	1,311	(1)	17,600

Sara Venning
Chief Executive
27 June 2017

[20] Based on accrued benefits at 31 March 2017 (or date of leaving the Board if earlier) and financial conditions as at 31 March 2017.
[21] Based on accrued benefits at 31 March 2016 (or date of joining the Board if later) and financial conditions as at 31 March 2016.
[22] CPI inflation of 0%.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual 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 or 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 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
27 June 2017

Statutory Accounts

NI Water's rebranded vehicles pictured in front of Titanic Belfast, Co. Antrim.

Statement of financial position

	Note	At 31 March 2017 £000	At 31 March 2016 £000
Assets			
Property, plant and equipment	A1	**2,848,193**	2,734,593
Investment properties	A3	**6,264**	6,148
Intangible assets	A4	**32,778**	35,471
Other investments	A5	**41**	27
Total non-current assets		**2,887,276**	2,776,239
Inventories	A6	**2,353**	2,374
Trade and other receivables	C4	**23,076**	21,248
Unbilled revenue		**9,852**	10,495
Prepayments		**1,368**	1,317
Cash and cash equivalents	A7	**3,622**	3,169
Assets classified as held for sale	A8	**790**	848
Total current assets		**41,061**	39,451
Total assets		**2,928,337**	2,815,690
Equity			
Share capital	B3	**500,000**	500,000
Statutory distributable reserve*		**171,690**	171,690
Retained earnings*		**629,198**	602,769
Available for sale reserve*		**(50)**	(64)
Total equity attributable to owner of the Company		**1,300,838**	1,274,395
Liabilities			
Loans and borrowings	B1	**1,217,270**	1,192,113
Other payables	D2	**1,303**	1,373
Deferred income	C2	**5,906**	6,265
Provisions	D3	**2,891**	3,054
Deferred tax liabilities	F1	**191,046**	194,174
Employee benefit	E2	**65,984**	7,171
Total non-current liabilities		**1,484,400**	1,404,150
Loans and borrowings	B1	**4,843**	4,127
Trade payables	D2	**121,003**	116,960
Other payables	D2	**11,944**	10,621
Deferred income	C2	**2,603**	2,684
Provisions	D3	**2,706**	2,753
Total current liabilities		**143,099**	137,145
Total liabilities		**1,627,499**	1,541,295
Total equity and liabilities		**2,928,337**	2,815,690

* Refer to Statement of changes in equity on page 71.
The financial statements were authorised for issue by the Board of Directors on 27 June 2017 and were signed on its behalf by:

Sara Venning
Chief Executive
27 June 2017

The notes on pages 74 to 120 form part of these financial statements.

Statement of comprehensive income

	Note	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Revenue	C1	**422,412**	**413,525**
Other income	C3	**1,016**	1,158
Operating expenses	D1	**(256,772)**	(251,015)
Research and development expenses		**(264)**	(239)
Results from operating activities		**166,392**	163,429
Finance income	B2	**70**	96
Finance costs	B2	**(63,550)**	(64,384)
Net finance costs		**(63,480)**	(64,288)
Profit before income tax		**102,912**	99,141
Income tax (expense)/credit	F1	**(6,600)**	2,320
Profit for the year		**96,312**	101,461
Other comprehensive income			
Items that will never be reclassified to profit or loss: Defined benefit plan actuarial (losses)/gains	F1	**(46,621)**	4,294
Items that are or may be reclassified to profit or loss: Available for sale shares - fair value gain/(loss)		**14**	(11)
Other comprehensive income for the period, net of income tax		**(46,607)**	4,283
Total comprehensive income for the period		**49,705**	105,744
Profit attributable to:			
Owner of the Company		96,312	101,461
Total comprehensive income attributable to:			
Owner of the Company		49,705	105,744

All profits relate to continuing operations.
The notes on pages 74 to 120 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 2016	B3	500,000	171,690	602,769	(64)	1,274,395
Total comprehensive income for the period						
Profit for the year		-	-	96,312	-	96,312
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial losses	E2	-	-	(56,179)	-	(56,179)
Deferred tax arising on losses in defined benefit plan	F1	-	-	9,558	-	9,558
Items that are or may be reclassified to profit or loss:						
Available for sale shares - fair value gain		-	-	-	14	14
Total other comprehensive income		-	-	(46,621)	14	(46,607)
Total comprehensive income for the period		-	-	49,691	14	49,705
Transactions with owner, recognised directly in equity						
Distributions to owner of the Company						
Dividends to owner of the Company	B3	-	-	(23,262)	-	(23,262)
Balance at 31 March 2017		500,000	171,690	629,198	(50)	1,300,838
Dividends per share (GBP)						0.05

The notes on pages 74 to 120 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 2015	B3	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	E2	-	-	5,348	-	5,348
Deferred tax arising on gains in defined benefit plan	F1	-	-	(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 company	B3	-	-	(24,736)	-	(24,736)
Balance at 31 March 2016		500,00	171,690	602,769	(64)	1,274,395
Dividends per share (GBP)						0.05

The notes on pages 74 to 120 form part of these financial statements.

Statement of cash flows

	Note	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Cash flows from operating activities			
Profit before tax		**102,912**	99,141
Adjustments for:			
Depreciation	A1, A2	**71,758**	68,190
Amortisation of intangible assets	A4	**7,151**	7,988
Impairment losses on assets classified as held for resale		**-**	532
Notional income relating to adopted assets	C1	**(32,071)**	(32,721)
Gain on sale of property, plant and equipment	C3	**(657)**	(799)
Interest expense (net)	B2	**63,480**	64,288
		212,573	206,619
Changes in:			
- inventories		**20**	(98)
- trade and other receivables		**(1,630)**	1,815
- unbilled revenue		**593**	(1,063)
- trade and other payables		**(845)**	(11,006)
- provisions		**(211)**	(801)
- excess of pension charge over cash pension contributions		**2,041**	369
Cash generated from operating activities		**212,541**	195,835
Cash flows from investing activities			
Interest received		**74**	92
Proceeds from sale of property, plant and equipment		**1,096**	1,693
Acquisition of property, plant and equipment, and intangible assets		**(148,999)**	(136,580)
Grants received		**-**	5
Net cash used in investing activities		**(147,829)**	(134,790)
Cash flows from financing activities			
Proceeds from borrowings		**30,000**	36,000
Payment of finance lease liabilities		**(4,126)**	(3,420)
Interest paid		**(66,700)**	(66,669)
Dividends paid	B3	**(23,262)**	(24,736)
Tax paid		**(171)**	-
Net cash from financing activities		**(64,259)**	(58,825)
Net increase in cash and cash equivalents		**453**	2,220
Cash and cash equivalents at 1 April	A7	**3,169**	949
Cash and cash equivalents at 31 March	**A7**	**3,622**	3,169

The notes on pages 74 to 120 form part of these financial statements.

Notes to the Statutory accounts

1 Key accounting policies

(a) Reporting entity

Northern Ireland Water Limited (the Company) is a Company domiciled in Northern Ireland. The address of the Company's registered office is Westland House, 40 Old Westland Road, Belfast, BT14 6TE. 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 (DfI).

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 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 fair value 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 represents 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 2017. 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.

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 not accept the PC15 Final Determination in the circumstances.

1 Key accounting policies continued

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

On 1 June 2016, the Utility Regulator confirmed acceptance of the Company proposals for adjusted outputs for 2016/17. DfI has indicated that the 2017/18 budget allocation for NI Water might fall below the PC15 Final Determination, if that is the case a similar process will be undertaken to agree changes to 2017/18 regulatory outputs. 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 G2 (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 on 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 2016 and these have been adopted in the Company financial statements:

- amendments to IAS 19 Defined Benefit Plans: Employee Contributions; and
- 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 C4 – trade and other receivables;
- note E2 – measurement of defined benefit pension obligations;
- notes D3 and D4 - provisions and contingencies;
- note G1(q) and note B4 – measurement of fair values; and
- note F1 – deferred taxation.

Significant accounting policies are included at note G1.

Key themes for NI Water

A The assets we use

NI Water uses a significant number of assets in its operations. We are continually investing in our assets both to maintain and to increase our capacity for service. For further information on our capital programme see pages 48 to 49.

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

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

A1 Property, plant and equipment

	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 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**
Balance at 1 April 2016	75,192	1,748,747	1,181,782	15,050	115,009	**3,135,780**
Adjustment for previous impairment***	2,989	-	-	-	-	**2,989**
Revised balance at 1 April 2016	78,181	1,748,747	1,181,782	15,050	115,009	**3,138,769**
Additions	-	3,049	-	-	150,697	**153,746**
Customer contributions	1	31,585	485	-	-	**32,071**
Disposals	(59)	(979)	(219)	(728)	-	**(1,985)**
Transfers	686	33,463	73,433	1,664	(109,246)	**-**
Transfers to investment properties	(612)	-	-	-	-	**(612)**
Transfer from assets held for sale	8	-	-	-	-	**8**
Balance at 31 March 2017	**78,205**	**1,815,865**	**1,255,481**	**15,986**	**156,460**	**3,321,997**

* Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.
** Reclassifications from/to Intangible Assets – see note A4.
*** Adjustment to land opening balances of £2,988,625 is in relation to an impairment adjustment made in 2009/10.

A1 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 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)**
Balance at 1 April 2016	(5,159)	(108,057)	(277,585)	(10,386)	-	**(401,187)**
Adjustment for previous impairment**	(2,989)	-	-	-	-	**(2,989)**
Revised balance at 1 April 2016	(8,148)	(108,057)	(277,585)	(10,386)	-	**(404,176)**
Depreciation for the year	(1,150)	(16,998)	(52,102)	(1,463)	-	**(71,713)**
Disposals	53	979	191	717	-	**1,940**
Transfer to investment properties	145	-	-	-	-	**145**
Balance at 31 March 2017	**(9,100)**	**(124,076)**	**(329,496)**	**(11,132)**	**-**	**(473,804)**
Carrying amounts						
At 31 March 2016	70,033	1,640,690	904,197	4,664	115,009	2,734,593
At 31 March 2017	**69,105**	**1,691,789**	**925,985**	**4,854**	**156,460**	**2,848,193**

* Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.
** Adjustment to land opening balances of £2,988,625 is in relation to an impairment adjustment made in 2009/10.

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

Borrowing costs capitalisation

Included in the total net book value of property, plant and machinery is £3,516k (2016: £2,721k) of borrowing costs capitalised during the period using a capitalisation rate of 4.24% (2016: 4.34%).

Leased assets

	At 31 March 2017 £000	At 31 March 2016 £000
The net book value of land and buildings comprises:		
Freehold	**68,046**	68,970
Leasehold - long and short term	**1,059**	1,063
Total	**69,105**	70,033

	At 31 March 2017 £000	At 31 March 2016 £000
Land within this total is not depreciated and is shown as follows:		
Freehold	**17,131**	17,588

A1 Property, plant and equipment continued

PPP assets

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

Capital commitments

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

	At 31 March 2017 £000	At 31 March 2016 £000
Contracted	**63,981**	59,069

In addition to the above, at the end of the financial year the Company had entered into commitments amounting to £622m (2016: £705m). These commitments relate to planned future capital spend. The contracted amount of £64m is in relation to actual spend contracted with suppliers to date.

A2 Service concession agreements

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

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

Kinnegar

A contract with Coastal Clear Water Limited was signed on 30 April 1999 for the provision of sewage treatment, which covered the upgrading of the Kinnegar Waste Treatment Works with a capital cost in the region of £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 2017 is £12m and £5.91m respectively (2016: £12.0m and £6.25m). The amount included in PPP Creditors at 31 March 2017 is £3.38m (2016: £3.67m).

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 2017 is £119.24m and £89.79m respectively (2016: £117.68m and £91.86m). The amount included in PPP Creditors at 31 March 2017 is £90.38m (2016: £92.50m).

Omega

A contract with Glen Water Limited was signed on 6 March 2007 for the provision of sewage treatment / sludge disposal at six sites with a capital cost in the region of £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 2017 is £142.08m and £108.03m respectively (2016: £140.89m and £110.95m). The amount included in PPP Creditors at 31 March 2017 is £114.49m (2016: £116.51m).

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

A2 Service concession agreements continued

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.

A3 Investment properties

	Total (£000)
Cost or deemed cost	
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**
Balance at 1 April 2016	**18,634**
Reclassification from property, plant and equipment	**612**
Disposals	**(44)**
Transfers to non-current assets held for sale	**(443)**
Balance at 31 March 2017	**18,759**
Accumulated depreciation and impairment losses	
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)**
Balance at 1 April 2016	**(12,486)**
Disposals	**2**
Impairment loss	**-**
Reclassification to non-current assets held for sale	**140**
Reclassification from property, plant and equipment	**(145)**
Depreciation for the year	**(6)**
Balance at 31 March 2017	**(12,495)**
Carrying amounts	
At 31 March 2016	**6,148**
At 31 March 2017	**6,264**

A3 Investment properties continued

Impairment loss

During the year ended 31 March 2017, the Company recognised an impairment loss of £nil (2016: £260k) 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.

A4 Intangible assets

	Computer programs and software £000	Assets in the course of construction £000	Total £000
Cost			
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**
Balance at 1 April 2016	73,532	825	**74,357**
Acquisitions	-	4,458	**4,458**
Transfers	3,457	(3,457)	**-**
Balance at 31 March 2017	**76,989**	**1,826**	**78,815**
Amortisation and impairment losses			
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)**
Balance at 1 April 2016	(38,886)	-	**(38,886)**
Amortisation for the year	(7,151)	-	**(7,151)**
Balance at 31 March 2017	**(46,037)**	**-**	**(46,037)**
Carrying amounts			
At 31 March 2016	34,646	825	**35,471**
At 31 March 2017	**30,952**	**1,826**	**32,778**

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

A4 Intangible assets continued

Assets in the course of construction (AICC)

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

£264k (2016: £239k) 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)	£3m	5.5
Water mains studies	£2.6m	6
CBC implementation (customer billing)	£2.5m	5
Costing solution development	£0.7m	4
Asset data acquisition and improvement	£2.2m	7
NIAMP 4 (asset management plan)	£0.7m	8
Metering related software	£1.7m	9
Drainage area plans	£0.7m	8

The contractual commitments for the acquisition of intangible assets as at 31 March 2017 are £3,495k (2016: £3,271k).

A5 Other investments

	At 31 March 2017 £000	At 31 March 2016 £000
Non-current investments		
15,278 ordinary 'A' shares	**41**	27
	41	27

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 2017 was £2.71 per ordinary share (2016: £1.75). The fair value adjustment of £14k has been credited to Other Comprehensive Income and has been credited to an Available for Sale reserve.

A6 Inventories

	At 31 March 2017 £000	At 31 March 2016 £000
Raw materials and consumables	**2,353**	2,374
Work in progress	**-**	-
	2,353	2,374

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

During the year raw materials, consumables and work in progress issued from stores and recognised within operating costs amounted to £539k (2016: £397k). The inventory held in stores is a component of total inventories. In the year ending 31 March 2017 the write-down of inventories to net realisable value amounted to £60k (2016: £60k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2016: £60k). The write-downs are included in operating expenses.

A7 Cash and cash equivalents

	At 31 March 2017 £000	At 31 March 2016 £000
Bank balances	**2,122**	2,169
Call deposits	**1,500**	1,000
Cash and cash equivalents	**3,622**	3,169

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

A8 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 2018 these properties have been classified as held for sale in current assets.

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

	At 31 March 2017 £000	At 31 March 2016 £000
Balance at 1 April	**848**	1,009
Net transfer from investment properties	**303**	390
Net transfer (to)/from property, plant and equipment	**(8)**	403
Impairment/Depreciation	**(2)**	(105)
Disposals	**(351)**	(849)
Balance at 31 March	**790**	848

A gain of £463k (2016: £255k) on disposal of non-current assets held for sale is included within 'Other income' in the SOCI.

B How we are financed

NI Water is funded from a number of sources. This section contains the notes to the SOFP. It sets out the borrowings we receive from our Shareholder, the DfI, which is used to partially finance our capital investment programme. We pay interest on our loans and receive interest on any funds which from time-to-time we have available for short-term investments. Our capital and reserves note shows the total equity attributable to the Shareholder including the dividend that is paid. For more information on how we are financed see pages 42 to 49.
For further information on the relevant accounting policies applied in this section please see section G1.

B1 Loans and borrowings

This note provides information about the contractual terms of the 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 B4.

	At 31 March 2017 £000	At 31 March 2016 £000
Non-current liabilities		
Capital loan notes	**1,013,560**	983,560
Finance lease liabilities	**203,710**	208,553
	1,217,270	1,192,113
Current liabilities		
Current portion of finance lease liabilities	**4,843**	4,127
	4,843	4,127

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			At 31 March 2017		At March 2016	
	Nominal interest rate	**Year of maturity**	**Face value £000**	**Carrying amount £000**	Face value £000	Carrying amount £000
Capital loan notes	5.25%	2027	627,560	627,560	627,560	627,560
Capital loan notes	Gilt + 0.85%	2027	356,000	356,000	356,000	356,000
Capital loan notes	Gilt + 0.85%	2034	30,000	30,000	-	-
PPP finance lease liabilities – Alpha	5.81%	2031	90,378	90,378	92,500	92,500
PPP finance lease liabilities – Omega	3.67%	2032	114,791	114,791	116,512	116,512
PPP finance lease liabilities – Kinnegar	3.99%	2024	3,384	3,384	3,668	3,668
			1,222,113	**1,222,113**	1,196,240	1,196,240

The capital loan notes (denominated in GBP) have been issued under the instruments constituting £1,280,200k Fixed Coupon Unsecured loan notes 2027 and £600,000k Fixed Coupon Unsecured loan notes 2034. During the year to 31 March 2017, £30m of loan notes were issued under the £600,000k Fixed Coupon Unsecured loan notes 2034 instrument (2016: £36m issued under £1,280,200k Fixed Coupon Unsecured loan notes 2027 instrument). Capital loan notes are issued to DfI and those issued under the £1,280,200k Fixed Coupon Unsecured loan notes instrument are repayable in full in 2027 and those issued under the £600,000k Fixed Coupon Unsecured loan notes instrument are repayable in full in 2034. All loan notes in issue before 31 March 2010 carry a fixed rate of interest of 5.25%. Any loan notes issued after 31 March 2010 carry fixed interest rates of 0.85% above the reference gilt rate as published by the UK HM Government Debt Management Office on the day of issue of the loan note. The gilt rates applying to loan drawdowns subsequent to 31 March 2010 range from 1.56% to 4.42%.

B1 Loans and borrowings continued

Finance lease liabilities

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

	At 31 March 2017			At 31 March 2016		
	Future minimum lease payments £000	**Interest £000**	**Present value of minimum lease payments £000**	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	24,175	19,332	4,843	23,882	19,755	4,127
Between one and five years	100,070	71,180	28,890	98,918	73,854	25,064
More than 5 years	270,224	95,402	174,820	295,550	112,061	183,489
	394,469	**185,914**	**208,553**	418,350	205,670	212,680

B2 Finance income and finance costs

Recognised in profit or loss

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Interest income on bank deposits	**70**	96
Net finance income	**70**	96
Financing charges on pension scheme	**(200)**	(400)
Interest expense on financial liabilities measured at amortised cost	**(43,595)**	(43,883)
Interest on PPP financing arrangements	**(19,755)**	(20,101)
Finance costs	**(63,550)**	(64,384)
Net finance costs recognised in profit or loss	**(63,480)**	(64,288)

All finance income and finance costs above relate to assets/(liabilities) not at fair value through profit or loss. Of the above amount £47,086 (2016: £46,537k) was payable to DfI in relation to loan notes issued (see note B1 'Loans and borrowings' and note G4 'Related parties'). Interest of £3,516k was capitalised in the year (2016: £2,721k).

B3 Capital and reserves

Share capital

	Ordinary shares	
	At 31 March 2017 £000	At 31 March 2016 £000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000

Ordinary shares

At 31 March 2017 the authorised share capital comprised 500 million ordinary shares (2016: 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 2017 £000	Year to 31 March 2016 £000
4.65 pence per allotted ordinary share (2016: 4.95 pence)	**23,262**	24,736

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

B4 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 2017		At 31 March 2016	
	£000	**£000**	£000	£000
Not past due	**18,490**	**156**	18,917	173
Past due 0-30 days	**1,465**	**37**	1,867	57
Past due 31-60 days	**520**	**31**	528	38
Past due 61-90 days	**415**	**29**	467	41
Past due 91-120 days	**400**	**106**	228	68
Past due 121-150 days	**448**	**246**	262	138
Past due 151-365 days	**1,137**	**900**	1,202	955
Past due 1-2 years	**949**	**930**	937	935
Past due 2+ years*	**757**	**747**	697	687
	24,581	**3,182**	25,105	3,092

*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.

B4 Financial instruments continued

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

	At 31 March 2017 £000	At 31 March 2016 £000
Not past due	**16,687**	17,764
Past due 0-30 days	**1,548**	1,892
Past due 31-60 days	**465**	510
Past due 61-90 days	**474**	379
Past due 91-120 days	**332**	109
Past due 121-150 days	**382**	169
Past due 151-365 days	**1,278**	1,082
Past due 1-2 years	**891**	878
Past due 2+ years	**2,524**	2,322
	24,581	25,105

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 2017 £000	At 31 March 2016 £000
Balance at 1 April	**3,092**	4,688
New provisions	**2,309**	2,407
Debt provision utilised	**(415)**	(1,333)
Provision released unused	**(1,804)**	(2,670)
Balance at 31 March	**3,182**	3,092

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.

B4 Financial instruments continued

Liquidity risk

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

31 March 2017

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	**1,013,560**	(1,495,404)	(23,872)	(23,742)	(47,614)	(142,973)	(1,257,203)
Finance lease liabilities	**208,553**	(394,468)	(12,088)	(12,088)	(24,531)	(75,537)	(270,224)
Trade and other payables	**134,250**	(134,250)	(132,947)	-	-	(1,303)	-
	1,356,363	(2,024,122)	(168,907)	(35,830)	(72,145)	(219,813)	(1,527,427)

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

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)

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

Profile

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

	Carrying amount	
	At 31 March 2017 £000	At 31 March 2016 £000
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	**(1,222,113)**	(1,196,240)
	(1,222,113)	(1,196,240)
Variable rate instruments		
Financial assets	**3,622**	3,169
Financial liabilities	**-**	-
	3,622	3,169

B4 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 2017					
Financial assets not measured at fair value					
Cash and cash equivalents	A7	-	3,622	-	**3,622**
Trade and other receivables	C4	-	11,722	-	**11,722**
Unbilled income		-	9,786	-	**9,786**
Financial assets measured at fair value					
Investment securities - Equity securities	A5	41	-	-	**41**
		41	25,130	-	**25,171**
Financial liabilities not measured at fair value					
Finance lease liabilities	B1	-	-	(208,553)	**(208,553)**
Trade payables	D2	-	-	(121,003)	**(121,003)**
Other payables	D2	-	-	(13,247)	**(13,247)**
Loans and borrowings	B1	-	-	(1,013,560)	**(1,013,560)**
		-	-	(1,356,363)	**(1,356,363)**

B4 Financial instruments continued

	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	A7	-	3,169	-	3,169
Trade and other receivables	C4	-	11,524	-	11,524
Unbilled income		-	10,489	-	10,489
Financial assets measured at fair value					
Investment securities: - Equity securities	A5	27	-	-	27
		27	25,182	-	25,209
Financial liabilities not measured at fair value					
Finance lease liabilities	B1	-	-	(212,680)	(212,680)
Trade payables	D2	-	-	(116,960)	(116,960)
Other payables	D2	-	-	(11,994)	(11,994)
Loans and borrowings	B1	-	-	(983,560)	(983,560)
		-	-	(1,325,194)	(1,325,194)

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 £1,218m (2016: £1,200m). Accounting policies 1(c) outlines the background to PC15. The uncertainty in relation to this would normally have an impact on the credit rating of loans and borrowings and the interest rate used to calculate fair values. It has been assumed that no change in the credit risk premium has occurred because all loans and borrowings are provided by the Shareholder and the Company has no access to external finance markets. 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 B1. 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, DfI.

C Revenue and receivables

This section sets out the income which NI Water receives from its customers and the amounts owed to it at year end. In accordance with the policy set by the Northern Ireland Executive the Company does not bill its domestic customers and in lieu receives a subsidy from the DfI. Non domestic customers are charged for our services. In addition we adopt assets (mainly underground sewers) and their value is included as income. For more information on our income see page 45.

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

C1 Revenue

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Customer subsidy provided by DfI	**284,367**	283,450
Customer income	**73,831**	69,344
Road drainage income provided by DfI	**20,593**	20,030
Transfers of assets from customers	**32,071**	32,721
Connection and infrastructure charges	**8,275**	6,113
Other third party contributions	**3,275**	1,867
	422,412	413,525

Customer subsidy provided by DfI

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

Customer income

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

Road drainage income provided by DfI

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

Transfers of assets from customers

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.

C2 Deferred income

Deferred income classified as current consists of deferred revenue associated with the annual unmeasured water bill cycle and the portion of deferred government grants that will be recognised as income in the next year. Deferred income classified as non-current consists of the non-current portion of deferred government grants.

	At 31 March 2017 £000	At 31 March 2016 £000
Government grants	**6,265**	6,624
Customer billing in advance	**2,244**	2,325
	8,509	8,949

Non-current	**5,906**	6,265
Current	**2,603**	2,684
	8,509	8,949

The Company credited £nil (2016: £4.9k) to capital grants during the year. The balance of grants noted above relates to awards made previously to Water Service. All grants have been recognised as deferred income, and are being amortised over the useful economic life of the related asset.

C3 Other income

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Net gain on sale of property, plant and equipment	**657**	799
Amortisation of deferred grants and contributions	**359**	359
	1,016	1,158

C4 Trade and other receivables

	At 31 March 2017 £000	At 31 March 2016 £000
Trade and other receivables from related parties (see note G4)	**1,909**	1,669
Trade receivables	**9,813**	9,855
Other receivables	**11,354**	9,724
	23,076	21,248

Current	**23,076**	21,248

At 31 March 2017 other receivables include VAT receivable of £4,828k (2016: £5,195k).

C5 Exposure to credit risk

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

Loans and receivables	Note	**At 31 March 2017 £000**	At 31 March 2016 £000
Trade and other receivables	C4	**11,722**	11,524
Unbilled income		**9,786**	10,489
Cash and cash equivalents	A7	**3,622**	3,169
		25,130	**25,182**

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 2017 £000	At 31 March 2016 £000
End-user customers	**21,508**	22,013

The maximum exposure to cash and cash equivalents (note A7) is £3,622k (2016: £3,169k). The majority of this balance relates to monies held at the Company's principal banker, Danske Bank.

D Purchases and payables

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

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

D1 Operating expenses

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Depreciation and other amounts written off tangible and intangible assets	**78,909**	76,710
Hire and contracted services	**60,966**	55,772
Staff costs	**57,750**	57,348
Power	**27,177**	30,042
Rates	**25,861**	26,547
Raw materials and consumables	**9,082**	8,710
Sundry operating expenses	**9,537**	8,612
Own work capitalised*	**(12,510)**	(12,726)
Total operating expenses	**256,772**	251,015

* Own work capitalised includes payroll costs (see note E1), materials and overheads.

Refer to page 83 for expenditure on research and development.

The net decrease in inventories for the year was £21k (2016: £98k increase).

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

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Impairment loss on investment properties/assets classified as held for sale/property, plant and equipment	**-**	532
Impairment (gain) realised on trade receivables	**(260)**	(263)
	(260)	269

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Auditors' remuneration:		
Audit of statutory financial statements	**54**	54
Audit of regulatory financial statements	**14**	17
Other assurance opinions	**22**	22
	90	93
Amounts receivable by the auditor in respect of:		
Other services relating to taxation	**-**	-
Accounting and regulatory advice	**36**	11
	36	11
Total fees paid to the auditor	**126**	104

D2 Trade and other payables

	At 31 March 2017 £000	At 31 March 2016 £000
Payments received on account	**1,945**	1,743
Trade payables	**5,959**	8,183
Taxation and social security	**1,095**	1,148
Accruals – operating expenditure	**46,880**	44,207
Accruals – capital expenditure	**63,947**	60,854
Accruals relating to related parties (see note G4)	**1,177**	825
	121,003	116,960

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

Other payables

	At 31 March 2017 £000	At 31 March 2016 £000
Non-current	**1,303**	1,373
Current	**11,944**	10,621
	13,247	11,994

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.

D3 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 2016	1,808	609	-	106	3,284	**5,807**
New Provisions	1,213	97	-	-	-	**1,310**
Utilised	(651)	(129)	-	-	(234)	**(1,014)**
Transferred to accruals	-	-	-	-	-	**-**
Amounts released unused	(506)	-	-	-	-	**(506)**
Balance at 31 March 2017	**1,864**	**577**	**-**	**106**	**3,050**	**5,597**
Non-current	1,119	433	-	-	1,339	**2,891**
Current	745	144	-	106	1,711	**2,706**
	1,864	**577**	**-**	**106**	**3,050**	**5,597**

D3 Provisions continued

	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	227	-	-	1,512	**2,771**
Utilised	(551)	(180)	(1,900)	-	-	**(2,631)**
Transferred to accruals	-	-	(503)	-	-	**(503)**
Amounts released unused	(438)	-	-	-	-	**(438)**
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 and employer liability claims

The public liability and employer liability claims at 31 March 2017 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 D4. The contingent liability for public and employer liability of £0.6m represents an amount relating to the value of claims received above the provision included in the financial statements.

Early retirement provisions

The early retirement provision relates to those retirement benefits accruing to those members who took early retirement prior to 1 April 2007. The provision represents the total of retirement benefits due to those members from 31 March 2017 to their official date of retirement. These payments are made on a monthly basis to DoF and the amounts and timing of these should not be subject to any uncertainty.

Other provisions

Other provisions relates to management's best estimates of the value of entitlement in relation to holiday pay totaling £2,050k (2016: £2,284k) and of third party costs in relation to the resolution of contractual disputes of £1,000k (2016: £1,000k).

D3 Provisions continued

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

31 March 2017

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	1,119	433	-	-	1,339	**2,891**
In the second to fifth years	745	144	-	106	1,711	**2,706**
Over five years	-	-	-	-	-	-
	1,864	**577**	**-**	**106**	**3,050**	**5,597**

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**

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

D4 Contingencies

The Company is disputing liability in some public and employer liability cases. The estimate of the financial effect is £0.6m (2016: £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 £15.874m (2016: £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 2017 £000	At 31 March 2016 £000
Public and employer liability	**594**	657
Contractor claims	**15,874**	7,350
	16,468	8,007

Debenture to DfI

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

The Company has entered into an environmental indemnity with DfI and the Department of the Environment (from 9 May 2016 Department of Agriculture, Environment and Rural Affairs (DAERA)) in respect of any future environmental liabilities arising for NI Water. The Company has registered a debenture to counter indemnify DfI in relation to these three guarantees. Under this debenture the Company pledges to DfI by way of first floating charge and as a continuing security for the payment and discharge of the secured liabilities all of the 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.

D4 Contingencies continued

Contingent assets

The Company receives performance bonds from customers in relation to requisition of water mains and sewerage services. The balance of cash bonds held at 31 March 2017 is £8.4m (2016: £6.85m) and this balance is included in accruals (see note D2). Bonds are only recognised as a capital contribution if customers are in default of agreed conditions. The Company has also received a number of paper performance bonds issued by various financial institutions. These are not recognised in the financial statements. Value placed on paper bonds held at 31 March 2017 is £21.5m (2016: £17.8m). These items are considered contingent assets as an inflow of economic benefits is considered to be remote.

D5 Operating leases

Leases as lessee

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

	At 31 March 2017 £000	At 31 March 2016 £000
Less than one year	**243**	243
Between one and five years	**750**	971
More than 5 years	**-**	-
	993	1,214

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 2017 an amount of £337k was recognised as an expense in profit or loss in respect of operating leases (2016: £207k).

E Our employees

This section sets out information about employee numbers and costs and then provides information on the Company's pension scheme. The analysis provided in the pension notes is based on IAS 19 estimate of the scheme's assets and liabilities as at 31 March 2017. The most recent actuarial valuation of the pension scheme completed in 2014 by Mercers showed a funding surplus of £1m. The value shown in the SOFP calculated on IAS 19 Employee Benefits basis is subject to a number of factors. In this section we provide information to explain the following:

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

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

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

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

Further information on the analysis of the NI Water Pension Scheme assets and the assumptions underlying the liabilities are set out in note G3. For more information on Our People see pages 34 to 35.

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

E1 Personnel numbers and expenses

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

	No. of employees Year to 31 March 2017	No. of employees Year to 31 March 2016
Directors	**12**	12
Non-industrial staff	**773**	765
Industrial staff	**470**	471
	1,255	1,248

The gender of persons employed by the Company (including Directors) during the year ended 31 December 2016, 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	**53**	**15**	**68**	46	15	61
Non-industrial staff	**496**	**228**	**724**	470	214	684
Industrial staff	**468**	**2**	**470**	470	7	477
	1,017	**245**	**1,262**	986	236	1,222

*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 2017 £000	Year to 31 March 2016 £000
Wages and salaries	**41,078**	43,056
Social security costs	**4,409**	3,477
Other pension costs	**12,263**	10,815
	57,750	57,348

An amount of £10,747k (2016: £10,991k) 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.

E1 Personnel numbers and expenses continued

E1a Key management personnel short-term employee benefit

Detailed information concerning key management personnel's remuneration, bonus payments and pensions is included in the Directors' remuneration report on pages 62 to 66. Key management includes all Board and Executive Committee members.

In summary, key management personnel compensation comprised:

	Year to 31 March 2017 £000	Year to 31 March 2016 £000 (restated)
Short-term employee benefits	**815**	813
Post-employment benefits	**168**	169
	983	982

The 2015/16 figures have been restated to remove the 2014/15 element of the pay uplift paid in 2015/16.

The emoluments of the highest paid Director were £151k (2016: £150k).

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.

E1b Exit packages

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

Exit package cost band £000	**Number of compulsory redundancies 31 March 2017**	**Number of other departures agreed 31 March 2017**	**Total number of exit packages by cost band 31 March 2017**	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
0 - 10	**-**	**1**	**1**	-	1	1
10 - 25	**-**	**4**	**4**	-	11	11
25 - 50	**-**	**4**	**4**	-	1	1
50 - 100	**-**	**1**	**1**	-	1	1
Above 100	**-**	**-**	**-**	-	-	-
Total number	**-**	**10**	**10**	-	14	14
Total cost (£'000)	**-**	**280**	**280**	-	312	312

E1 Personnel numbers and expenses continued

E1c Off-payroll engagements

In accordance with DoF disclosure guidance - FD (DoF) 03/17, the Company had the following 'off payroll' engagements at a cost of over £58,200 per annum and engaged for over six months.

	Year to 31 March 2017 number
Number of engagements as at 1 April	3
Existing engagements exceeding threshold in the year	2
The number of engagements that have come to an end during the year	(1)
Number of engagements as at 31 March	4

Of the two that exceeded the threshold in the year, one was procured before 1 October 2014 and the other included a contractual clause giving NI Water the right to request assurance in relation to income tax and National Insurance. Assurance has been requested by NI Water and has been received.

E2 Employee benefits

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

Components of defined benefit cost

	Total year to 31 March 2017 £000	Total year to 31 March 2016 £000
Service cost		
Current service costs (operating costs - staff costs)	9,704	11,175
Past service costs/(credits) (operating costs - staff costs)	1,217	(1,129)
Total service cost	10,921	10,046
Net interest (income)/cost:		
Interest expense	8,026	7,406
Interest income	(7,800)	(7,006)
Net interest cost	226	400
Administration expenses and taxes	1,352	769
Defined benefit cost included in profit	12,499	11,215

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

Net defined benefit liability/(asset) reconciliation

	Total year to 31 March 2017 £000	Total year to 31 March 2016 £000
Opening defined benefit liability	7,171	11,630
Defined benefit cost included in profit	12,499	11,215
Total measurements included in Other Comprehensive Income	56,179	(5,348)
Cash flows – employer contributions	(9,865)	(10,326)
Closing defined benefit liability	65,984	7,171
Actual return on plan assets	28,869	(3,257)

E2 Employee benefits continued

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

	Total year to 31 March 2017 £000	Total year to 31 March 2016 £000
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	**-**	-
Effect of changes in financial assumptions	**77,248**	(15,660)
Effect of experience adjustments	**-**	-
Return on plan assets excluding interest income	**(21,069)**	10,312
Total remeasurements included in Other Comprehensive Income	**56,179**	(5,348)

Significant assumptions used in this disclosure

Weighted-average assumptions to determine benefit obligation

	Conditions at 31 March 2017	Conditions at 31 March 2016
Rate of increase in salaries	**2.10% for 3 yrs., 3.10% thereafter**	1.95% for 4 yrs., 2.95% thereafter
Rate of increase in pensions in payment and deferred pensions	**3.10%**	2.95%
Discount rate	**2.60%**	3.70%
Inflation assumption - RPI	**3.10%**	2.95%
Inflation assumption - CPI	**2.10%**	1.95%

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

F Taxation

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

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

F1 Taxation

Income tax expense

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Tax recognised in profit or loss current tax expense		
Current year	**(187)**	(216)
Adjustment for prior years	**17**	-
	(170)	(216)
Deferred tax		
(Origination) and reversal of temporary differences	**(20,404)**	(19,398)
Adjustment to prior years	**(10)**	15
Reduction in tax rate (20% to 18%) (2015: no rate change)	**13,984**	21,919
	(6,430)	2,536
Total income tax (expense)/credit	**(6,600)**	2,320

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

	Year to 31 March 2017			Year to 31 March 2016		
	Before tax £000	**Tax benefit/ (expense) £000**	**Net of tax £000**	Before tax £000	Tax (expense)/ benefit £000	Net of tax £000
Defined benefit plan actuarial gains/(losses)	**(56,179)**	**9,558**	**(46,621)**	5,348	(1,054)	4,294
	(56,179)	**9,558**	**(46,621)**	5,348	(1,054)	4,294

F1 Taxation continued

Reconciliation of effective tax rate

	%	Year to 31 March 2017 £000	%	Year to 31 March 2016 £000
Profit for the year		**96,312**		101,461
Total income tax expense/ (credit)		**6,600**		(2,320)
Profit before income tax		**102,912**		99,141
Income tax using the Company's domestic tax rate	20.0	**20,582**	20.0	19,828
Reduction in tax rate	(13.59)	**(13,984)**	(22.10)	(21,919)
Non-deductible expenses	0.13	**134**	(0.22)	(214)
Other timing differences	(0.12)	**(125)**	(0.00)	-
Adjustment to prior years	(0.01)	**(7)**	(0.02)	(15)
	6.41	**6,600**	(2.34)	(2,320)

Factors affecting future tax charge

In the Finance (No 2) Act 2015 provision was made that the corporation tax rate applicable for the financial year beginning 1 April 2017 would be 19%, falling to 18% for the financial years beginning 1 April 2020 onwards. The Finance Act 2016 provided for a further reduction in the rate to 17% for the financial years beginning 1 April 2020 onwards. The deferred tax for 2016/17 has been calculated at the appropriate tax rate which is expected to apply when assets are realised or liabilities are settled. In preparing the calculation a prudent approach has been taken when considering the rate at which timing differences will reverse.

The Chancellor announced that from April 2017 there will be a restriction on the use of brought forward losses. The specific legislation is not yet enacted, however if enacted 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.

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 2017 £000	At 31 March 2016 £000	**At 31 March 2017 £000**	At 31 March 2016 £000	**At 31 March 2017 £000**	At 31 March 2016 £000
Property, plant and equipment	-	-	**160,134**	154,314	**160,134**	154,314
Transfers of assets from customers*	-	-	**61,310**	59,591	**61,310**	59,591
Intangible assets	**(456)**	(436)	**-**	-	**(456)**	(436)
Employee benefits	**(11,217)**	(1,291)	**-**	-	**(11,217)**	(1,291)
Provisions	**(753)**	(769)	**-**	-	**(753)**	(769)
Tax losses carried forward	**(17,972)**	(17,235)	**-**	-	**(17,972)**	(17,235)
Net tax (assets)/ liabilities	**(30,398)**	(19,731)	**221,444**	213,905	**191,046**	194,174

F1 Taxation continued

Movement in deferred tax balance during the year

	Balance at 31 March 2016 £000	Recognised in profit £000	Recognised in other comprehensive income £000	Reclassification £000	**Balance at 31 March 2017 £000**
Property, plant and equipment	154,314	5,930	-	(110)	**160,134**
Transfers of assets from customers*	59,591	1,719	-	-	**61,310**
Intangible assets	(436)	(20)	-	-	**(456)**
Employee benefits	(1,291)	(368)	(9,558)	-	**(11,217)**
Provisions	(769)	16	-	-	**(753)**
Tax losses carried forward	(17,235)	(847)	-	110	**(17,972)**
	194,174	**6,430**	**(9,558)**	**-**	**191,046**

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

G Supplementary notes to the accounts

This section sets out supplementary notes to the accounts. This includes our accounting policies (note that key accounting policies are included at pages 74 to 75), financial risk, details on retirement benefits, related party information and events subsequent to the year end date.

G1 Significant accounting policies

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

(a) 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 C4).

Cash and cash equivalents

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

Other investments

Other investments consist of ordinary shares in WRc PLC (see note A5). Subsequent to initial recognition these are measured at fair value and the changes are recognised through other comprehensive income. When an investment is impaired or sold the cumulative gain or loss is reclassified to profit or loss (or impairment, reclassification to profit and loss will only occur if there is a sustained change in value for two years).

(ii) Non-derivative financial liabilities

All loans and borrowings are initially recognised at fair value, typically being the consideration received, net of issue costs. Financial liabilities are recognised initially on the trade date at which the 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.

G1 Significant accounting policies continued

(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 A1). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located (when there is an obligation to remove the asset), and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Assets in the course of construction

Assets in the course of construction are separately classified within property, plant and equipment until the date of commission at which stage they are transferred. Depreciation on these assets is not charged until they are brought into use.

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the 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 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.

G1 Significant accounting policies continued

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 G1(h) for further details).

(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.

G1 Significant accounting policies continued

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.

(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.

G1 Significant accounting policies continued

(iii) Non-financial assets

The carrying amounts of the Company's non-financial asset, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset, or its related cash-generating unit (CGU), exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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 or 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 asset, 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.

(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 benefit, consideration is given to any applicable minimum funding requirements. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Company determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

G1 Significant accounting policies continued

(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 DfI primarily relating to the deferment of the introduction of domestic charges that were planned for 1 April 2007; charges to customers for water and wastewater services and related services; road drainage income from DfI; transfers of assets from customers, e.g., sewer adoptions from developers; connection and infrastructure charges; other third party contributions and sundry income sources e.g. aerial site rentals.

(l) Government grants

New government grants and legacy grants to Water Service (pre 1 April 2007) were credited to 'deferred income' within liabilities at fair value and are released to profit or loss evenly over the expected useful life of the relevant asset, in accordance with the provisions of the Companies Act 2006. The Company receives government assistance, in the form of a customer subsidy, provided by DfI primarily in relation to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The customer subsidy is presented in revenue in the SOCI (see note C1). A capital subsidy is received from DfI in relation to requisitioning of water and sewerage infrastructure for older properties. Similarly to all capital contributions from customers, and in accordance with IFRIC 18, this is credited directly to revenue within the SOCI (see related parties note G4).

(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.

(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.

G1 Significant accounting policies continued

(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:

G1 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 B4 – financial instruments.

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

There are a number of new standards, amendments to standards and interpretations that are effective for periods beginning 1 January 2017 and early application is permitted, however the Company has not early adopted the following new or amended Standards in preparing these financial statements. The Company is reviewing the impact of the implementation of the following.

The new standards, amendments to standards and interpretations that may be relevant to the Company are as follows:

	Effective Date – periods beginning on or after*
New currently effective requirements	
• Amendments to IFRS 11: Accounting for acquisitions of interests in Joint Operations	1 January 2016
• Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation	1 January 2016
• Amendments to IAS 16 and IAS 41 Bearer Plants	1 January 2016
• Amendments to IAS 27 Equity Method in Separate Financial Statements	1 January 2016
• Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the consolidation exception (December 2015)	1 January 2016
• Annual Improvements to IFRSs 2012 to 2014 Cycle	1 January 2016
• Amendment to IAS1: Disclosure Initiative	1 January 2016
New standards, amendments or interpretations	
Forthcoming requirements	
• Amendments to IAS 7: Disclosure Initiative	1 January 2017*
• Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (19 January 2016)	1 January 2017*
• IFRS 15 and Clarification to IFRS 15 Revenue from Contracts with customers (issued 12 April 2016)	1 January 2018
• IFRS 9 Financial Instruments (issued 24 July 2014)	1 January 2018
• Amendments to IFRS 2: Classification and measurement of Share-based Payment Transactions (issued on 20 June 2016)	1 January 2018*
• Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016)	1 January 2018*
• Annual improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016)	1 January 2017 and 1 January 2018*

G1 Significant accounting policies continued

• IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)	1 January 2018*
• Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016)	1 January 2018*
• IFRS 16: Leases (issued on 13 January 2016)	1 January 2019*

*Not EU endorsed

G2 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 67% of the Company's revenue is in the form of a customer subsidy provided by DfI. This primarily relates to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The credit risk in relation to the remaining 33% is mitigated by the credit control policies outlined above. Excluding the Company's subsidy from DfI, 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 B4.

Investment deposits

In accordance with the Shareholder Governance Arrangements the main banking services were transacted through the NICS contract. As approved by DfI, and by DoF, 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

G2 Financial risk management continued

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 DfI for the period to 31 March 2017. 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 2017. The Company's net current liabilities can be met using the capital loan note facility (see note B1) and working capital facility provided by DfI. A capital loan arrangement and a £20m working capital facility, extending to 31 March 2021, are in place with DfI. Further information in respect of liquidity risk is set out in note B4.

Market risk

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

Interest Rate Risk

Interest rates on borrowings at 31 March 2017 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 may expose it to foreign exchange risk.

Capital management

The Company's capital consists of 500 million £1 ordinary shares, a statutory distributable reserve and a retained earnings reserve. A report on capital is prepared for the Board on an annual basis to ensure adequate cover exists for the payment of the Company's dividend.

Other risks

Further details on risks are contained on pages 19 to 25, 89 and 94.

G3 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. 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 2016/17 pension costs include a past service net credit of approximately £1.2m arising because of changes to the Scheme computation factors and late retirement uplifts which took effect from 1 April 2015.

Composition of the Scheme

The scheme is open to new entrants and therefore the service cost as a percentage of pensionable salaries is expected to remain broadly steady over time (subject to changes in market conditions). Accrued liabilities are based on calculations carried out by a qualified independent actuary. A full calculation of the liabilities was carried out at the date of the Scheme's latest actuarial valuation (31 March 2014) and has been updated to 31 March 2017 for IAS 19 purposes on an approximate basis.

Assumed life expectancies on retirement at age 60

	31 March 2017				31 March 2016			
	Non-industrial		**Industrial**		Non-industrial		Industrial	
	Male	**Female**	**Male**	**Female**	Male	Female	Male	Female
Retiring today (member aged 60)	**28.1**	**30.3**	**26.4**	**28.5**	28.0	30.2	26.2	28.4
Retiring in 20 years (member age 40)	**30.5**	**32.7**	**28.7**	**30.9**	30.4	32.6	28.6	30.8

The weighted-average target asset allocations were as follows:

	Total scheme assets at 31 March 2017 £000	Total scheme assets at 31 March 2016 £000
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%

Fair value of plan assets

	Total scheme assets at 31 March 2017 £000	Total scheme assets at 31 March 2016 £000
a. Equities	**77,372**	60,998
b. Debt instruments		
(i) Corporate bonds	**30,774**	27,831
(ii) Gilts	**66,255**	55,455
c. Property	**22,756**	21,638
d. Other	**42,537**	41,640
Total market value of assets	**239,694**	207,562

G3 Employee benefits continued

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 2017 £000	Total at 31 March 2016 £000
Actives	**208,380**	143,917
Vested deferreds	**24,523**	16,362
Retirees	**72,775**	54,454
Total defined benefit obligation	**305,678**	214,733

Change in the fair value of plan assets

	Total year to 31 March 2017 £000	Total year to 31 March 2016 £000
Fair value of plan assets at end of prior year	**207,562**	204,113
Movement in year		
Interest income	**7,800**	7,006
Contributions by plan participants	**1,404**	1,083
Contributions by employer	**9,865**	10,326
Actuarial gain/(loss)	**21,069**	(10,312)
Benefits paid	**(6,551)**	(3,885)
Administration expenses paid from plan assets	**(1,352)**	(540)
Insurance premiums for risk benefits	**(103)**	(229)
	239,694	207,562

Analysis of the present value of the defined benefit obligations

	Total year to 31 March 2017 £000	Total year to 31 March 2016 £000
At the beginning of the year	**214,733**	215,743
Movement in year		
Current service cost	**9,704**	11,175
Interest expense	**8,026**	7,406
Past service costs	**1,217**	(1,129)
Remeasurements:		
a. Effect of changes in demographic assumptions	**-**	-
b. Effect of changes in financial assumptions	**77,248**	(15,660)
c. Effect of experience adjustments	**-**	-
Contributions by plan participants	**1,404**	1,083
Insurance premiums for risk benefits	**(103)**	-
Benefits paid	**(6,551)**	(3,885)
	305,678	214,733

G3 Employee benefits continued

Amounts recognised in the statement of financial position

	Total year to 31 March 2017 £000	Total year to 31 March 2016 £000
Defined benefit obligation	**(305,678)**	(214,733)
Fair value of plan assets	**239,694**	207,562
Deficit in the scheme – pension liability	**(65,984)**	(7,171)
Related deferred tax asset	**11,217**	1,291
Net pension liability	**(54,767)**	(5,880)

During the year, many of the global investment markets grew in value so overall investment returns on most major asset classes were positive. This has impacted on the investment returns achieved by the NIWLPS, which were a positive £28.9m (equivalent to a return of about 12%) (2016: 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 2016/17 %	Change in liability 2016/17 £000	Change in liability 2015/16 %	Change in liability 2015/16 £000
+ or - 0.25% in discount rate	**6.5**	**19,800**	5.8	12,400
+ or - 0.25% in rate of inflation	**5.3**	**16,300**	5.1	10,900
+ or - 0.25% in salary inflation	**1.1**	**3,500**	1.3	2,700
Increase in life expectancy of 1 year	**3.0**	**9,300**	2.4	5,000
Reduce long-term improvements to 1.25%	**(2.9)**	**(8,800)**	-	-

Expected cash flows for the following year

	£000
Expected employer contributions	**10,958**
Expected total benefit payments:	
Year 1	**6,650**
Year 2	**6,751**
Year 3	**6,855**
Year 4	**6,963**
Year 5	**7,074**
Then for next 5 years (Total)	**37,156**

G4 Related parties

Parent and ultimate controlling party

The Company is a Government owned Company and 100% owned by its ultimate controlling party, the DfI. The results of the Company will not be within the annual financial statements prepared by the DfI, nor in the financial statements of any other entity. Inter-Company debtor and creditor balances with the DfI and other government bodies will be supplied to the DfI for the Whole of Government Accounts. The Company transacts with other Government Departments, Agencies, and NDPBs, in the normal course of business and in accordance with standard business terms.

Related party disclosures with DfI are as follows:

	At 31 March 2017 £000	At 31 March 2016 £000
Subsidy		
Revenue subsidy from DfI (credited to revenue)	**284,367**	283,450
Revenue relating to road drainage (credited to revenue)	**20,593**	20,030
Revenue subsidy from DfI relating to third party contributions (credited to revenue)	**-**	-
Other receivables - subsidy (included in other receivables - note C4)	**1,551**	1,450
Other sales to DfI (credited to revenue)	**1,555**	1,230
Trade receivables - other sales to DfI (included in trade receivables - note C4)	**358**	240
Purchases		
Purchases from DfI (included in operating costs or capital expenditure)	**948**	700
Accruals - purchases from DfI (included in accruals - note D2)	**597**	440
Loans and borrowings		
Loans from DfI during the year	**30,000**	36,000
Balance on loans from DfI at year end - note B1	**1,013,560**	983,560
Loan interest to DfI - note B2*	**47,086**	46,537
Loan interest owed to DfI at year end	**580**	386
Dividends		
Dividend to Shareholder - note B3	**23,262**	24,736

* loan interest stated before capitalisation of £3,516k (2016: £2,721k) of interest.

No guarantees are given to or received from DfI in relation to the previous balances. There are no provisions for doubtful debts related to the amounts above and no expense recognised in the year in respect of bad and doubtful debts due from DfI.

Key management personnel's compensation

Details of the key management personnel's post-employment defined benefit plan and termination benefits are included in the Directors' remuneration report on pages 62 to 66. Key management personnel's compensation is disclosed in note E1a.

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 (UKWIR). During the year the Company purchased £99k (2016: £99k) of services from UKWIR.

G5 Subsequent events

There were no subsequent events that need to be brought to the attention of the users of the financial statements.

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

We have audited the financial statements (''financial statements'') of Northern Ireland Water Limited for the year ended 31 March 2017 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 and in accordance with the provisions of the Companies Act 2006. 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 state of the Company's affairs as at 31 March 2017 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 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 is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- We have not identified material misstatements in those reports; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

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.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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.

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

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 67, 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.

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

John Poole
Senior Statutory Auditor
for and on behalf of
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