Annual Report & Accounts
2017/18

northern ireland
water

Delivering what matters

Northern Ireland Water Annual Report and Accounts

For the year ended 31 March 2018

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 3 September 2018

About this report

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

We have made a number of changes to this year's report, which we hope will help you understand how we create long term sustainable value. For example, we have included the following:

- new infographics to explain how we engage with our stakeholders and report what is most important to them (pages 16 and 17);
- new layout for our customer promise section and more images to demonstrate the value we are creating (pages 20 to 52); and
- an overview of our new approach to integrating risk and resilience (page 53).

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.

Cautionary note

This document contains links to other websites. Any information contained on these websites has not been subject to audit. Refer to the Independent Auditors' Report on page 153 for details on which areas of this report have been subject to audit.

Contents

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

Images on front cover – Cyclist drinking water on the banks of the River Lagan; NI Water staff member with one of our business customers; and section of the Mourne Wall, Co Down.

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

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

NI Water's Chairman, Dr Len O'Hagan, answers some questions about this year's Annual Report and Accounts.

Can you sum up the essence of NI Water?

NI Water exists to provide the water for life we all rely on to thrive. Every aspect of life in Northern Ireland relies on the water and wastewater services we provide. Our business is essential to support a thriving population, a growing economy and a flourishing environment.

How would you describe NI Water's progress to date?

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

'To be valued and trusted, every aspect of our business needs to be world class'

This year's Annual Report marks the half-way point in the current business plan period (2015-21), known as Price Control 2015 or PC15. We are continuing to deliver these service improvements and efficiencies, with our progress independently verified by the Utility Regulator[1].

How do you see the business changing in the future?

Becoming more resilient and sustainable are in my view the key generational challenges facing NI Water. Our infrastructure and how we deliver our services to customers will have to meet the demands of climate change that we are already seeing. Our services will need to meet the requirements of an increasing and ageing population and support efforts to rebalance the economy by growing tourism and attracting foreign direct investment while protecting our natural environment.

Digital technology is seen as a disruptor to traditional business models. How is NI Water responding to this new technology?

The digital revolution, like the industrial revolution over a century and a half ago, is reshaping the way we live and work. This requires a fundamental transformation of our business – it changes the relationship with our customers and each other, brings new entrants and disruptive technologies, creating new communication channels, products and services. We have started to harness digital technology and are implementing a digital programme that will spark innovation and continue to deliver efficiencies and service improvement.

Tell us about NI Water's unique funding model.

Northern Ireland is unique within the UK as being the only part where the regulated water utility is unable to fully implement the economic regulator's final determination due to public expenditure constraints. The final determination sets out the required levels of funding and service. As a government owned company (GoCo) and a non-departmental public body (NDPB), NI Water is not immune from public expenditure cuts and uncertainty over funding. This places progress on efficiencies at risk and could result in tangible impacts on service delivery, the local economy and the environment. Our PC15 business plan started from a constrained capital expenditure position with £990m of public expenditure budget available against a requirement for £1.7bn. Further public expenditure cuts over PC15 mean that around £55m of projects will not be delivered. These are projects such as new water mains or upgraded wastewater treatment plants needed to connect new houses and underpin wider economic growth.

We fully support the Department for the Economy's proposals to build the best economic infrastructure. Following the publication of the Department of Finance's budgetary outlook in December 2017, we completed an extensive round of stakeholder briefings. This resulted in the two main political parties in Northern Ireland writing to the Secretary of State to express their support for NI Water and the need for appropriate funding.

1 https://www.uregni.gov.uk/pc15-mtr-report

Our desire is for the level of funding determined by the Utility Regulator to be ring fenced and allocated to us by central government rather than compete with other forms of infrastructure such as roads and transport for a funding allocation. We are working with the Departments for Infrastructure and Finance to agree proper support for the essential service we deliver and our customers deserve.

Have there been any big changes in the business over 2017/18?

A big achievement has been the acquisition of Kelda Water Services' holdings in four treatment plants that provide almost half of the treated water in Northern Ireland. This brings back into NI Water ownership all clean water production in Northern Ireland. The acquisition represents a strong fit with NI Water's strategy to provide clean safe drinking water to our customers and to do so in a way that secures efficiencies for our customers and for the public purse. NI Water can generate value from this strategic move that will feed through to customers by way of reduced water tariffs and reduced public expenditure budgetary requirements. The work undertaken to communicate the value we deliver has helped gain backing from our stakeholders to take opportunities such as this.

It is easy to overlook water and wastewater infrastructure. How can it become more valued?

Much of what NI Water delivers takes place underground or out of sight. This is in contrast with other forms of infrastructure on which we drive, commute or fly. It is often the case that our water and wastewater infrastructure is only noticed when it fails. It then becomes apparent how much every aspect of life relies on what we deliver.

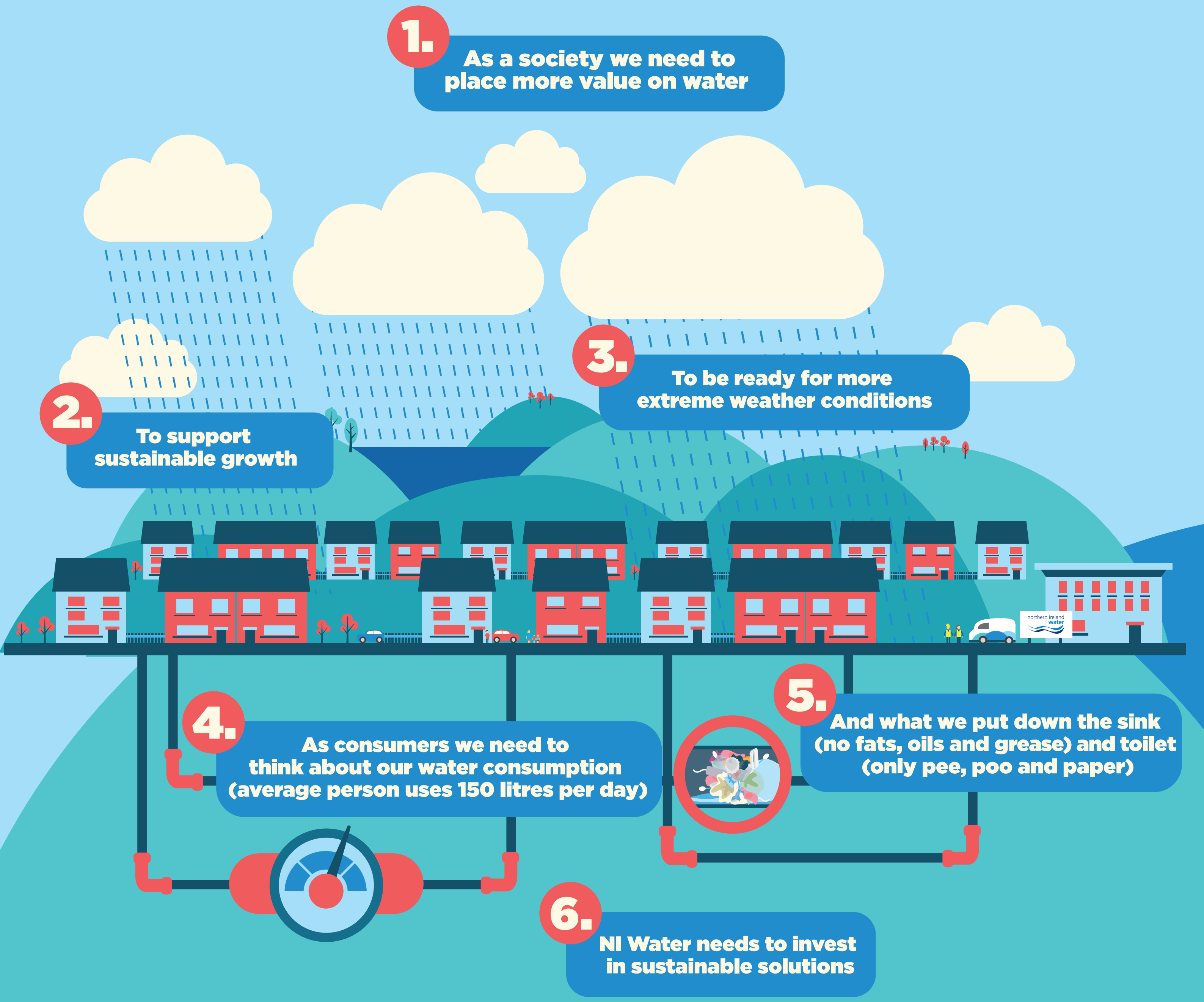
We take every opportunity to tell the story of how we create value and get our stakeholders to be ambassadors for NI Water. Young people are often amongst the most committed ambassadors and our double decker waterbus has visited 100,000 primary school pupils over the last decade. We are also a proud partner of NI Year of Infrastructure 2018, which aims to raise awareness of how infrastructure underpins every aspect of our lives. Further details can be found at www.infra2018.org.

What are NI Water's plans for the future?

Our vision is to grow value and trust by being world class. To do this, we need to look beyond the traditional focus on financial capital and ensure that our decisions sustainably grow all forms of capital. This will be a key theme for us as we move forward. Our customers and stakeholders will continue to be at the heart of our plans and we will be working with them to refresh our customer promises.

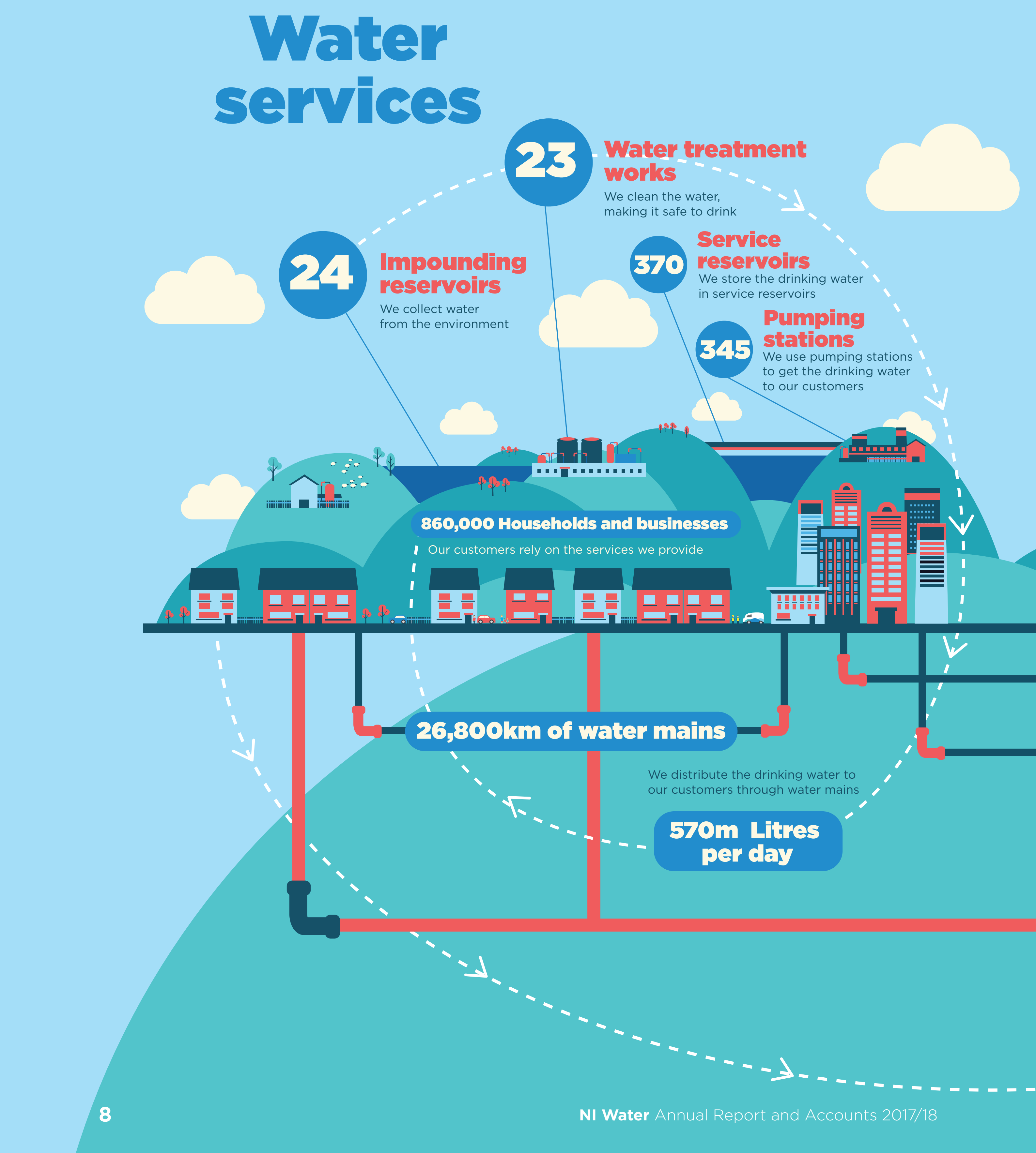
Dr Leonard J. P. O'Hagan CBE
Chairman
24 July 2018

Changing how we think about water



Key business activities

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



Wastewater services

700k **Households and businesses**

We collect wastewater from our customers

1,300 **Pumping stations**

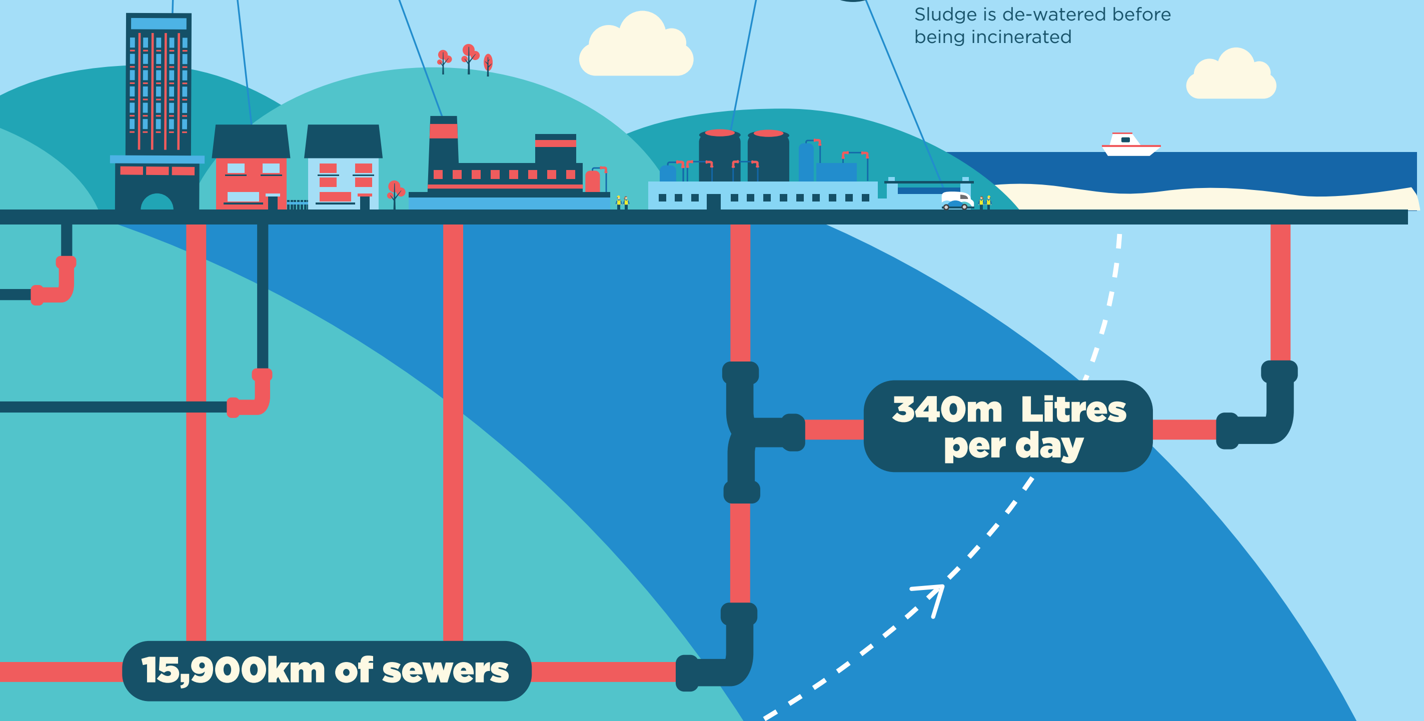
We use pumping stations to get the wastewater to our treatment works

1,030 **Wastewater treatment works**

We treat wastewater and return it safely to the environment

63 **Sludge management centres**

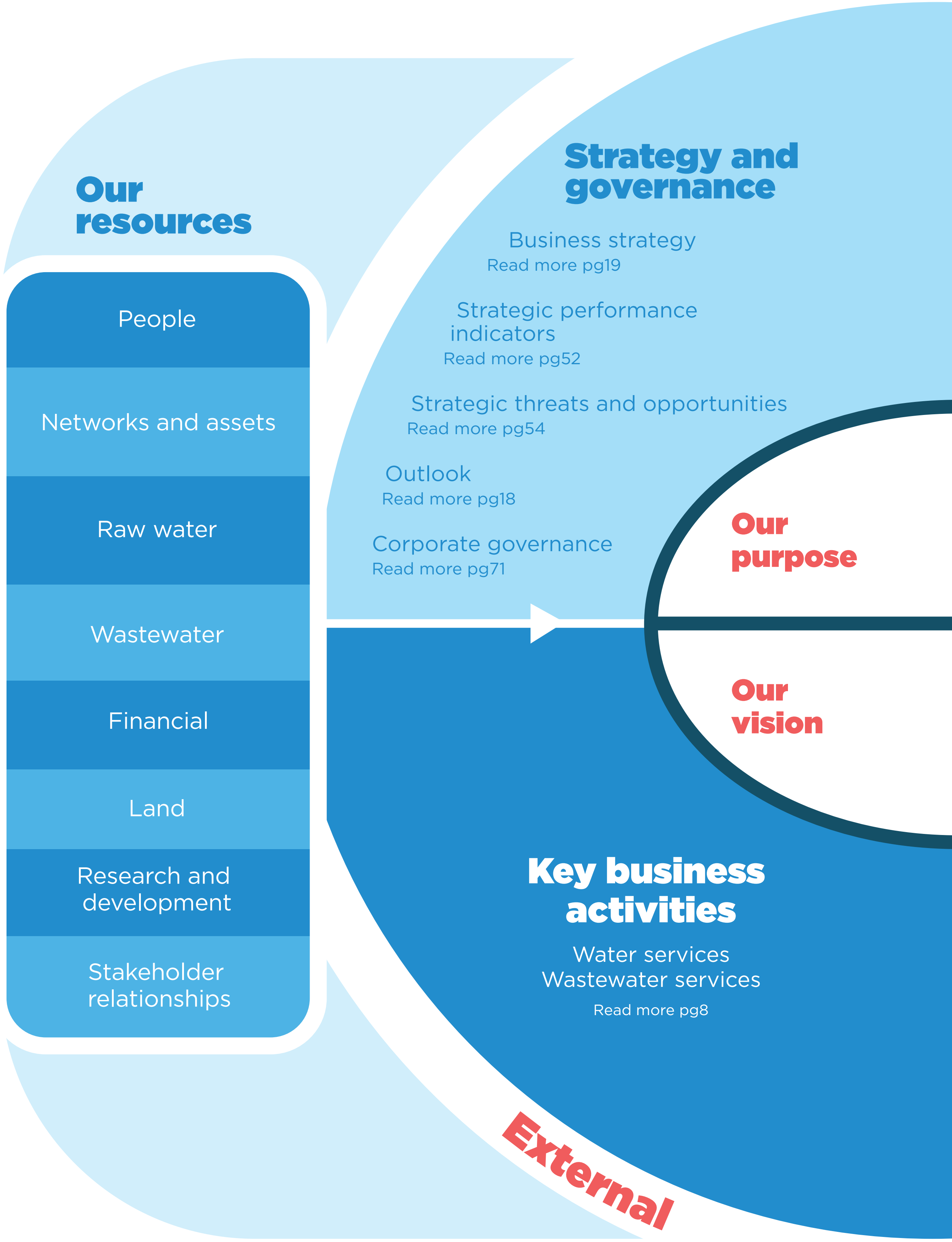
Sludge is de-watered before being incinerated



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

To grow value and trust by being world class.

Our culture

Customer service excellence
Continuous improvement
Collaborative working
Taking ownership
Integrity

environment
Read more pg14

Where we add value

Customer service
Read more pg20

Drinking water quality
Read more pg24

Water supply
Read more pg28

Wastewater
Read more pg32

People
Read more pg36

Natural environment
Read more pg40

Climate change
Read more pg44

Value for money
Read more pg48

Business performance

Delivering our ambitious business plan

I am delighted with the progress we are making in delivering our ambitious PC15 business plan, which includes delivery of our best ever levels of service[2] to customers over 2017/18. Much of the work we are doing will build the foundation for further transformational changes in our next business plan period, PC21. Some of the notable highlights are provided below and further details on progress are contained in this report.

Like all water companies, we realise that the extent and size of the network we operate means there is a risk of pollution incidents occurring. For this reason, we are set stringent targets by the Utility Regulator to reduce pollution incidents, and whilst these targets have been consistently met and exceeded since 2008, on those rare instances when an incident does arise, such as at Maghera[3] in February 2017, it is a matter of the utmost regret to no one more than ourselves.

Getting smarter

We have been laying the foundations for a digital revolution. Customers will have noticed proactive text messaging to provide advance notice of repair work on our network. We have also made improvements to our website and increased our social media presence. As part of our digital programme, over the remainder of PC15 we are investing in smart meters and smart assets to provide better information to forecast demand, predict weather events, optimise energy usage and real time monitoring of our asset performance to make remote interventions. We will be starting to digitalise our processes such as electronic billing and online applications for developers. Communication channels for our customers will also be broadened with the introduction of artificial intelligence (Chatbots) and social media customer apps.

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

Keeping it clean and safe

Every day we supply 570 million litres of great tasting, clean and safe drinking water to 860,000 households and businesses. Around 200,000 water quality tests are undertaken by us every year to check that our drinking water meets the required standards. We are delighted we have delivered our best ever drinking water quality in 2017[4].

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

Battling the elements

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

At the end February and into early March, we experienced sub-zero temperatures and snowstorms. The amount of water into the water distribution system increased by 15%. Our teams were engaged in leakage detection and repairs as well as tankering water supplies to mitigate impacts on customers. In spite of this, we managed to achieve our supply interruption targets but we did not achieve our leakage target. We remain on track to deliver the targeted level of leakage reduction by the end of PC15.

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

2 Overall Performance Assessment score of 236 in 2017/18 against a target of 224.
3 https://www.niwater.com/news-detail/11463/maghera-wastewater-treatment-works-wwtw-incident/
4 Measured on a calendar year basis.

Keeping business flowing

We completed construction on a new wastewater treatment works at Ballycastle, Co Antrim, which recycles wastewater and safely returns it to the environment. The plant underpins growth in the tourism industry and development of Ballycastle town. Overall wastewater compliance is at near record levels.

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

You're hired

I am delighted to welcome 12 new apprentices into our Water Supply Programme. As part of their three year training programme, the apprentices will have the opportunity to work at different site locations and gain an industry recognised qualification. We are really looking forward to watching them progress their skills and knowledge as they grow with us over the coming months.

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

Getting noticed

We won two categories in the Global Business Excellence Awards - the Outstanding Green Initiative for the Ballynacor Wild Flower Meadow project which fully remediated five former sludge lagoons; and the Outstanding HR Initiative category for our 'Golden Years' retirement projects which help prepare employees for the emotional, psychological and financial impact of retirement.

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

Switched on

As the largest user of electricity in Northern Ireland we have an opportunity to play a key role in addressing climate change and take advantage of the huge changes to the electricity market. These changes include more generation at source, a smart grid to support energy trading and improved battery storage. We are targeting an increased use of renewable energy from 13% in 2012/13 to 40% by 2021. A notable milestone in the year was the construction of our first solar farm at Dunore Point on the shores of Lough Neagh.

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

Watching the pennies

In March 2018, we announced below inflation tariff increases for business customers in 2018/19. The resulting coverage included a recognition of improvements in efficiency and external cost pressures such as rising energy prices.

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

Sara Venning
Chief Executive
24 July 2018

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 Limited provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator. Our revenue requirements, the amounts charged to our customers and our performance outputs are set by the Utility Regulator through a Price Control process.

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.

Delivering what matters to stakeholders

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

We are all ears

Interim PC15 Customer Research / Annual Omnibus Survey

1,000

Domestic customers (face to face)

Interim PC15 Customer Research / Annual Omnibus Survey

250

Business customers (computer assisted telephone interviewing)

200

Customers who have contacted NI water surveyed quarterly (telephone)

1,200+

Customer call back survey of customers who contact NI Water

50

MLAs surveyed periodically

100+

Councillors surveyed periodically

Stakeholder groups

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

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

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

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

200

Large business customers surveyed bi-annually

Board oversight

NI Water Board consisting of independent Non-Executive Directors approves the content of the Annual Report and Accounts which is structured around eight customer promises.

Informs business strategy pg19

Outlook

We face a number of challenges and uncertainties 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.

Customer expectations

Customers have become more informed and their expectations are constantly evolving. Since delivering against our customer promises remains central to our strategic focus, we too must continue to adapt in order to meet those expectations.

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.

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 programme.

Demographics

The population of Northern Ireland is projected to increase by 141,300 (7.6%) between mid-2016 and mid-2041*. 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%202016.pdf

Business strategy

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

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

Delivering our customer promises
Customer service

We provide you with the customer service you value and expect

1. Keeping you in the loop

Better information on our website and proactive texting

2. We are all ears

Customers surveyed to increase from around 2,000 to 10,000 each year

3. Getting Smarter

Piloting the use of smart metering technology

Strategic threats/opportunities

ST1 ST4 SO1 SO2 SO3 SO4

Page 54 Read more about strategic threats and opportunities.

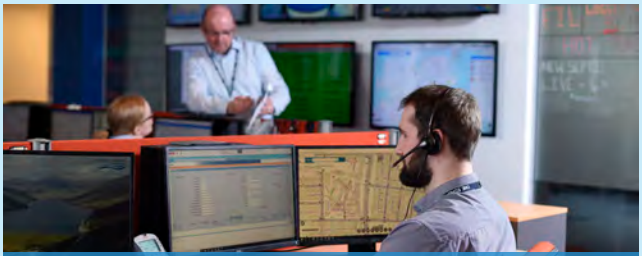
Strategic performance indicator

Customer contacts	Unit of measurement	Customer promise	Target 2017/18	Actual 2017/18	Pass / Fail	Target 2018/19
Telephone contacts received	Number		220,993	212,095		209,944

NI Water staff member using smart metering technology.

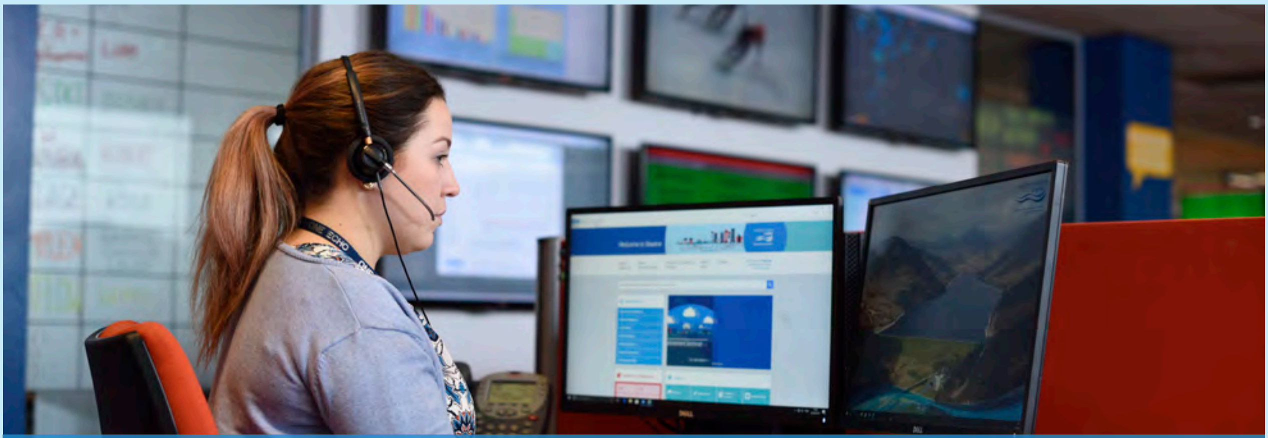
1. Keeping you in the loop

Over 2017/18, we introduced new ways to keep customers informed and reduce the need for customers to telephone our contact centre. More timely and accurate information is available on our website regarding planned and unplanned supply interruptions. This keeps customers more informed on the nature of the repair work and the estimated restoration time for supply. We have also introduced proactive text messaging notification and updates to customers impacted by unplanned supply interruptions. Feedback from a sample of customers who have received the text messages has been positive.



NI Water Customer Service Centre.

2. We are all ears



NI Water Customer Service Centre.

We plan to increase the number of customers we survey from around 2,000 to around 10,000 each year from 2018/19. Customers will be selected at random, soon after they contact us, so we can gather near real time feedback about their experience – what we did well and where we can improve. We'll use this data across the business to help us further improve the service we provide to all our customers.

3. Getting smarter

Our ambition is to become one of the leading utilities in the UK in the use of smart metering. Smart metering technology presents an opportunity to reduce customer contacts, complaints and improve our reputation, and ultimately assist in the transformation into a next generation utility company. The technology forms part of our digital programme and has been piloted over 2017/18.

We obtained great customer feedback, particularly from the Education Authority, which has responsibility for education and youth services throughout Northern Ireland. Over 2018/19 we will be introducing further functionality that will allow those customers with smart meters to obtain high consumption alarms to mitigate leakage. Customers will also be able to sign up for direct debit payments.

Smarter connections at Rathlin

NI Water staff member on Rathlin Island configuring a smart meter.

Our smart metering pilot scheme has been introduced at Rathlin Island, Co Antrim. The scheme allows 13 smart meters on Rathlin Island to automatically report back to a base in mainland Northern Ireland, with the information being used to read customer meters and alert NI Water to any potential water leaks or tampering on the island. The new wireless scheme will enable NI Water to access the data remotely for the first time. It hasn't always been easy to collect metering data from properties on Northern Ireland's only inhabited offshore island, due to the unpredictability of the weather and the cancellation of ferry services. This has meant that leaks and other water related issues on Rathlin can sometimes go unreported for some time, with a knock-on effect on customers. This new technology follows the world's first commercial wireless telegraphy link at Rathlin by Marconi in 1898 and the UK's first high-speed wireless broadband pilot of its kind at Rathlin by BT Ireland in 2013. This latest technology will ensure we provide the best possible service for our customers on the island and save valuable time and public money.

Drinking water

We provide you with clean, safe water to drink

1. Keeping it clean and safe

Best ever drinking water quality

2. Tackling lead pipes

Replaced over 5,000 lead communication pipes through the proactive replacement programme

3. Tickling your taste buds

Promoting the value of our great tasting water

Strategic threats/opportunities

ST3 ST4 ST6 SO1

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Water quality compliance	Unit of measurement	Customer promise	Target 2017	Actual 2017	Pass / Fail	Target 2018
Overall compliance with drinking water regulations (%)*	%		99.79	99.88		99.79

* Calendar year target

Our best ever quality

NI Water scientist undertaking water quality tests.

1. Keeping it clean and safe

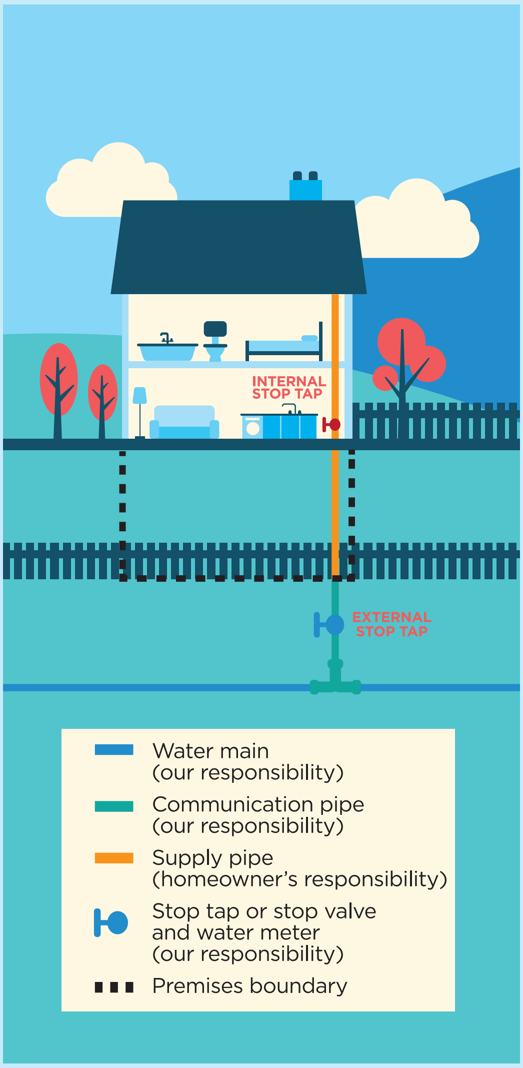
Delivery of clean, safe drinking water is central to what we do. It underpins the public health and economy of Northern Ireland. Being able to rely on and have confidence in the quality of water that we supply is a fundamental expectation of our customers. Every day we supply 570 million litres of clean safe drinking water to 860,000 households and businesses. We measure the quality of drinking water at water treatment works, service reservoirs and consumers' taps across Northern Ireland. Every year we undertake more than 200,000 water quality tests and delivered our best ever drinking water quality in 2017.

Inside Killylane water treatment works Ballyclare, Co Antrim.

2. Tackling lead pipes

The water leaving our water treatment works and in the distribution systems contains only trace amounts of lead. Over the PC15 period, we have committed to proactive replacement of over 11,000 lead communication pipes at consumer properties in addition to lead pipe replacement under water main rehabilitation and in response to sample failures. In the first three years of PC15 we have delivered 5,556 lead pipe replacements under the proactive replacement programme against a target of 5,532. However, where lead has been used for supply pipes between the water main and the kitchen tap or in domestic plumbing, there is a risk of non-compliance at the consumers' tap. So even with the removal of all lead pipes within our network there will be a risk to lead compliance from lead pipe remaining within customer properties. Find out more about reducing the risk of lead at: **www.niwater.com/lead-pipes/**

Lead communication pipes being replaced.



3. Tickling your taste buds

Mourne Mountain Water taste test, Abbey Centre, Co Antrim.

Getting our customers to be ambassadors can be a really effective means of communicating the value created by our activities. Sometimes it requires a slightly different communication approach. With this in mind, NI Water unveiled its new brand of water 'Mourne Water' to shoppers in a busy Northern Ireland supermarket. Asked where the refreshing Mourne Water was available to buy, the taste testers were shocked to find out it was tap water all along. We wen't surprised with the results as the Mournes is a Designated Area of Outstanding Natural Beauty, an ideal origin for a refreshing drink. Filling up from the tap with one of our free bottles can help reduce single use plastics and leave a little bit more money in your pocket.

Water supply

We supply you with the water you need

1. Every second counts

Supply interruptions kept within targets

2. Landmark reached

One million metres of water mains laid

3. Plugging the leaks

Leakage higher than target in 2017/18 but still aiming to achieve PC15 target

Strategic threats/opportunities

ST1 ST2 ST3 ST4 ST6 SO1

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Supply Interruptions	Unit of measurement	Customer promise	Target 2017/18	Actual 2017/18	Pass / Fail	Target 2018/19
Number of properties experiencing unplanned and unwanted interruptions (expressed as a percentage of households) in excess of:						
(a) 6 hours	%		0.840	0.706		0.824
(b) 12 hours	%		0.166	0.100		0.160
(c) 24 hours	%		0.010	0.000		0.009

Instrumentation at one of our water treatment works.

1. Every second counts

We look after a water supply network extending to over 26,000km in length – the same length as Northern Ireland's entire road network. Ensuring that customers receive a near uninterrupted supply of clean safe drinking water is paramount. We achieved our targets for supply interruptions in 2017/18 despite summer flooding which caused significant damage to infrastructure in the North West and adverse winter weather conditions, which caused higher levels of bursts across our network. In that context, we are pleased that no customers experienced any unplanned interruption to their supply greater than 24 hours.

NI Water staff repairing a supply interruption.

2. Landmark reached

We are continuing to invest in laying new water mains to improve water supply and drinking water quality. We are also looking at new initiatives to reduce the impact of supply interruptions and improve asset serviceability. One such initiative is the construction of a 'calm' network facility at our bespoke learning and development centre in Antrim, where we train our staff and contractors in best practice techniques for managing water networks. The approach aims to deliver a calmer water network that provides a reliable and resilient service through a reduction in bursts, leaks, low pressure and interruptions to supply, while improving serviceability and water quality.

One million reasons to appreciate your water

NI Water staff and contractor staff pictured to mark the milestone.

There are now one million reasons to appreciate your water as NI Water celebrates laying one million metres of water mains on the ongoing £100 million water mains improvement programme! As well as installing enough pipe to stretch from Dunmurry to Dusseldorf over the last decade, we have also fitted 6,000 valves and hydrants and worked on over 3,500 roads during this phase of the programme. Over 80 staff from our main contractor and more than 50 local subcontractors have been involved in the contract bringing a boost to the local economy.

3. Plugging the leaks

Leakage detection by NI Water staff member.

We failed to meet the target level of 159 million litres per day, with an actual level of leakage of 165 million litres per day. The increase in leakage was primarily caused by this year's bad weather from December to March, which caused a higher level of bursts on our network during 2017/18. Leakage reduction will continue to be given a high priority in 2018/19 to achieve the PC15 target of 153 million litres per day by 2021.

Wastewater

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

1. All clear

Relaunch of campaigns to reduce sewer blockages

2. Like a duck to water

Innovative rainwater garden reduces risk of flooding

3. Keeping business flowing

New wastewater treatment works at Ballycastle to support economic growth

Strategic threats/opportunities

ST1 ST2 ST3 ST4 ST6 SO1 SO3

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Wastewater compliance	Unit of measurement	Customer promise	Target 2017	Actual 2017	Pass / Fail	Target 2018
Percentage of population equivalent (%)*	%		98.30	98.66		99.12

* Calendar year target

Construction of Ballycastle wastewater treatment works, Co Antrim.

1. All clear

Our sewer network is designed to safely dispose of the three Ps: Pee, Poo and Paper. If other things are flushed down the toilet or poured down the sink, sewer pipes can and do block. Internal sewer flooding is the most unpleasant aspect of a blocked or overloaded foul sewer, and brings customer misery. We deal with around 15,000 blockages each year to the sewer network at a cost of around £2.5 million. It is estimated that 75% of blockages are caused by inappropriate items being put into the sewers. As part of our involvement with the 2018 Year of Infrastructure we relaunched our 'Bag it and Bin it' and 'Fats, Oils and Grease' campaigns to highlight the damage caused by disposing inappropriate items in the sewers. Sewer blockages caused by inappropriate disposal of fats, oils, grease and unflushable items such as wet wipes damage the environment from the sewer flooding and pollution they can cause.

2. Like a duck to water

Two pupils from Clandeboye Primary School enjoying the 'duck run'.

An innovative rainwater garden was completed at Clandeboye Primary School, Bangor, Co Down in 2017/18 which is the first of its kind in Northern Ireland.

The garden demonstrates how sustainable design can reduce the risk of flooding, whilst also enhancing the environment and providing a valuable educational resource.

NI Water previously invested £1.7 million on a new pumping station within the grounds of Clandeboye Primary School. This was part of the overall ongoing £10 million investment to improve the infrastructure, reduce the risk of flooding and improve bathing water quality in the Bangor area.

On completion of this project, the Rainwater Garden was constructed utilising funding from the Department for Infrastructure, which represents a further £70,000 investment.

The rainwater garden is a simple concept, which collects water run-off from the school roof and playground area, which is collected in an underground storage tank disguised as a turtle. When the water within the storage tank builds up to a certain level, a valve opens and allows the water to run down a channel, which will be used by the school children as a 'duck run' play facility. The rainwater then travels into two split-level ponds within the rainwater garden area, which provides further storage. This process reduces the rate at which the storm water reaches the local watercourse – Clandeboye Stream, lowering the risk of flooding in this area of Clandeboye.

Watch more: : https://www.youtube.com/watch?v=PsLEZpmvQEw

3. Keeping business flowing

Construction of Ballycastle wastewater treatment works, Co Antrim.

Construction completed on a new wastewater treatment works at Ballycastle, Co Antrim. The treatment works treats wastewater and returns it safely to the environment. Ballycastle is growing in terms of its population, tourism industry and infrastructure. The new plant underpins growth in the tourism industry and development of Ballycastle town. It will be essential to manage increased capacity in the local sewerage system during key events such as the Lammas Fair and delivers an improvement in the local water quality within the River Tow and local coastal waters.

People

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

1. You're hired

12 new apprentices started our water supply programme

2. Zero harm

Maintained health and safety incidents within targeted level

3. Northern Ireland's got talent

Sponsor of biggest careers event in Northern Ireland for 14-19 year old students

Strategic threats/opportunities

ST1 ST3 ST4 ST5 ST6 SO2 SO4

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Employee engagement	Unit of measurement	Customer promise	Target 2017/18	Actual 2017/18	Pass / Fail	Target 2018/19
Percentage of employees engaged	%		50	54		60

NI Water staff at the Skills NI Exhibition.

1. You're hired

NI Water is delighted to welcome 12 new apprentices into our Water Supply Programme. As part of their three year training programme, the apprentices will have the opportunity to work at different site locations and will undertake four work placements. Apprentices will have the opportunity to gain an industry recognised qualification level 2 diploma in Water Engineering which will be completed by summer 2018. We are really looking forward to watching them progress their skills and knowledge as they grow with us over the coming months. We will continue to support them with their development needs in order to help them reach their full potential as competent operators.

NI Water apprentices.

2. Zero harm

We focus on zero harm, through appropriate training, strong management, senior management safety visibility and good contract management. This includes demonstration of best practice such as the safe-dig approach developed by one of our contractors. We plan to develop a safety app, which will assist all staff in assessing risk at the point of work and putting appropriate control measures in place to keep staff, contractors and the public safe. During 2017/18, we had six incidents which resulted in greater than three days' absence from work, one below our targeted maximum level of seven. Each lost time incident is reviewed by the Health and Safety Focus Group, which includes line managers and contractors.

Safe-dig


The plastic bucket avoids potential excavating headaches and safety issues.


Safe-dig non-conductive excavator buckets.

Safe-dig is a new non-conductive excavator bucket specifically for use in areas where it is suspected or known that buried services are present. The bucket has a circular profile and is made of high-density polyethylene. This allows the attachment to naturally deflect away from ducts, cables and pipework that in the majority of cases are also circular in profile. Should contact be made with a buried service it is much less likely that damage will occur than if a steel bucket was being used. The material is strong enough to excavate in the majority of ground conditions whilst maintaining flexibility and impact absorbing properties not possible with steel buckets.

3. Northern Ireland's got talent

NI Water CEO Sara Venning and one of the students at the Skills NI Exhibition.

NI Water was the Support Sponsor at the annual Skills NI Exhibition, which is the biggest careers event in Northern Ireland for 14-19 year old students. Approximately 80 organisations from across Northern Ireland exhibited over two days in the Titanic Exhibition Centre. NI Water staff from across the business were at the stand to engage and educate the future workforce about the water industry and discuss the range of employment opportunities NI Water has to offer.

Natural environment

We want to protect and enhance the natural environment

1. Source to tap

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

2. Block it up

Restoration of blanket bog in the Garron Plateau, Co Antrim

3. Hole in the wall gang

Restoration of 2.5km of the Mourne Wall, Co Down

Strategic threats/opportunities

ST2 ST3 SO3 SO4

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Sustainable wastewater Treatment works (WwTW) solutions	Unit of measurement	Customer promise	Target 2017/18	Actual 2017/18	Pass / Fail	Target 2018/19
Cumulative number of sustainable WwTw solutions delivered	Number		2	4		3

Restoration of blanket bog, Garron Plateau, Co Antrim.

1. Source to Tap

'Source to Tap' is a €5.3m cross-border partnership project which launched in December 2017 to improve water quality in rivers and lakes in the Erne and Derg catchment areas.

The Derg and Erne drinking water catchments, which are predominantly rural in nature, are part of our shared drinking water sources providing water to parts of counties Fermanagh, Tyrone, Donegal, Cavan, Leitrim and Longford. The main land uses are forestry, farming and peatland. Certain types of land use management can cause materials such as sediments and herbicides to run off the land and drain into the raw water, the same raw water, which NI Water abstracts for drinking water. These materials must be removed in water treatment works to produce drinking water that meets strict drinking water quality standards. High concentrations of herbicides and variations in colour and turbidity requires increased capital investment and operational costs to treat and remove these materials. Therefore, it is more cost effective for us to identify these pressures at source and keep our rivers and lakes clean.

Activities have been initially focused on raising awareness of the importance of protecting drinking water supplies with eight roadshows held in the Erne and Derg catchments as well as the launch of a project website and interactive mapping portal. A pilot land incentive scheme has also been under development.

NI Water Chairman and CEO with staff involved in the project.

Funding

NI Water secured the funding from the European Union's INTERREG VA Programme, the Department for Agriculture, Environment and Rural Affairs (DAERA) in Northern Ireland, and the Department for Housing, Planning and Local Government (DHPLG) in Ireland. The funding is managed by the Special EU Programmes Body (SEUPB) and will run from 2017 to 2021.

Partners

NI Water is leading a partnership, which includes Irish Water, The Rivers Trust, Ulster University, Agri Food and Bioscience Institute (AFBI) and East Border Region. The partners will work together to test pilots for how to protect raw water quality at source across both jurisdictions.

Interreg
Northern Ireland - Ireland - Scotland
European Regional Development Fund

2. Biodiversity partnerships

Artificial drainage channels blocked with peat dams at Dungonnell catchment to re-wet the bog and prevent erosion.

NI Water has been working in partnership with the Royal Society for the Protection of Birds and Moors for the Future on the Co-operation across borders for biodiversity project. The project has been supported by the European Union's INTERREG VA Programme, managed by the SEUPB . The objective of the project is to bring about the recovery of protected habitats (raised and blanket bog) and priority species (breeding waders and marsh fritillary) on a cross border and cross country basis. The project has been awarded €4.6m of EU funding for projects in Scotland, Northern Ireland and the Republic of Ireland. The project will contribute to delivering the EC Birds and Habitats Directives and Biodiversity Strategies in each of the three countries.

The NI Water aspect of the project will involve a €175k project to restore the entire Dungonnell catchment in the Garron Plateau, Co Antrim. The plateau hosts the finest example of blanket bog in the island of Ireland. It is a special area of conservation but has been damaged by artificial drainage channels and overgrazing. Altogether 444ha of blanket bog will be restored through grazing management and by blocking 38.4km of artificial drains This will contribute to improving the blanket bog habitat to support biodiversity while improving the quality of raw water supplied to Dungonnell water treatment works. The requirement for chemical treatment to remove colour from peat stained raw water will be reduced, leading to cost and energy savings.

Interreg
Northern Ireland - Ireland - Scotland
European Regional Development Fund

Watch more: https://www.youtube.com/watch?v=1SDBx19E_Bw

3. Hole in the wall gang

NI Water staff and contractors pictured with representatives from the NIEA and Mourne Heritage Trust.

The Mourne Wall crosses 15 mountains across the Mourne range in Co Down and took approximately 18 years to build, with completion of the original wall in 1922. We have started to restore parts of the historic Mourne Wall, which will enhance environmental protection and tourism in this beautiful scenic area and protect the integrity of one of Northern Ireland's most iconic listed monuments. The first phase of work in 2017/18 saw the restoration of a 2.5km section of the Mourne Wall between Slieve Loughshannagh and Slieve Meelmore, which is surrounded by NI Water land. NI Water will be working closely with the NIEA, our contractor, local stone contractors and the Mourne Heritage Trust to assess the sympathetic construction methods employed, with a view to developing a wider four-year programme of work. To repair certain sections of the Mourne Wall, it will be necessary to transport stone and other material to site where it is not readily available. This will be done through carefully planned helicopter drops to agreed locations within the Mournes' area.

Watch more: https://youtu.be/SgWsokdJBD8

Climate change

We adapt to deal with the effects of climate change.

1. Smaller footprint

Annual carbon emissions have decreased by 10%

2. Solar system

First solar farm completed at Dunore water treatment works, Co Antrim

3. Energy revolution

We can play a unique role in the local energy system

Strategic threats/opportunities

ST2 ST3 SO1 SO3 SO4

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Renewable energy	Unit of measurement	Customer promise	Target 2017/18	Actual 2017/18	Pass / Fail	Target 2018/19
Percentage of NI Water's power usage derived from renewable sources	%		25	36.9		30.0

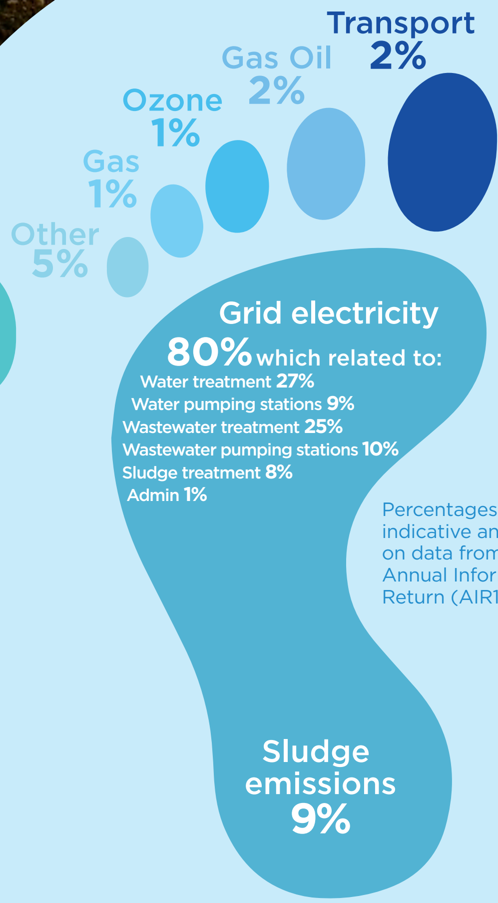
Solar panels at Dunore water treatment works, Co Antrim.

1. Smaller footprint

NI Water is at the forefront of the main impacts of climate change. Some of the impacts are obvious - more frequent and severe cold weather and floods, for example. Others are more subtle, such as changes to peak demand, and lower dilution of discharges to watercourses in times of drought, which require higher levels of treatment and the associated extra energy use.

For these reasons, we need to continuously adapt and reduce our carbon footprint. The majority of our carbon emissions are from grid electricity, with the remaining emissions being attributed to areas such as sludge emissions and transport. The annual carbon emissions resulting from activities of NI Water have decreased by 10%, decreasing from 118,783* t/CO2e in 2016/17 to 106,816 t/CO2e in 2017/18. This equates to 0.176 tonnes of carbon dioxide equivalent per million litres of treated water in 2017/18 (2016/17: 0.207* tCO2e/Ml) and 0.611 tonnes of carbon dioxide equivalent per million litres of treated wastewater in 2017/18 (2016/17: 0.574 tCO2e/Ml).

The annual carbon emissions resulting from the purchase of electricity have decreased by 13%, decreasing from 118,269 t/CO2e in 2016/17 to 103,307 t/CO2e in 2017/18. 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).



Percentages are indicative and based on data from the 2018 Annual Information Return (AIR18).

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.

*These figures have been restated from 2016/17 Annual Report and Accounts.

2. Solar system

Solar panels at Dunore water treatment works, Co Antrim.

Our business operations are relatively intensive, requiring large amounts of energy for pumping, water treatment and wastewater treatment. Renewable energy generation helps offset the impacts of increased energy prices, lowers our carbon footprint and increases revenue by reselling renewable energy to the grid. As the largest user of electricity in Northern Ireland, we are committed to increasing our electricity consumption from renewable sources from 13% in 2013/14 to 40% in 2020/21. We completed our first solar farm to supply electricity to the Dunore water treatment works in South Antrim. Dunore water treatment works is our third largest site in terms of energy consumption accounting for 7% of our annual usage. The £7m project involved work on a 33 acre site on the eastern shore of Lough Neagh and produces a peak output of 5 megawatts (enough electricity to power 1,500 homes). The farm saves over £0.5m annually in our energy costs and reduces our carbon footprint by 2,000 tonnes. As well as meeting the energy needs of the Dunore water treatment works, the farm also enables us to contribute spare capacity to the grid.

3. Energy revolution

Pupil from St Joseph's Primary School, Crumlin, Co Antrim at Dunore water treatment works, Co Antrim.

The energy system is facing huge changes with the growth of renewables, improved battery storage technology and the all island wholesale electricity market. NI Water can play a unique role in the local energy system. We have a distributed range of assets at over 3,000 sites providing sizeable network connections. Opportunities exist to deploy battery storage at scale across our estate. As Northern Ireland's largest user of electricity, we consume around 3% of Northern Ireland's total demand and have the ability to generate around 20% of Kilroot Power Station's capacity. We will look to work in collaboration with NIE Networks and the Utility Regulator to reshape demand through data, and use emerging technologies and renewables to more fully exploit the potential in ancillary service payments. This has the potential to deliver substantial benefits for both water and electricity customers.

£ Value for money

We seek to give you value for money

1. Watching the pennies

2018/19 non-domestic bills increased by less than inflation

2. Brainpower

First innovation event run in Northern Ireland for the water sector

3. Getting closer

Moving to a more collaborative approach with our supply chain

Strategic threats/opportunities

ST1 ST2 ST5 ST6 SO1 SO3

Page 54 Read more about strategic threats and opportunities.

Strategic performance indicator

Levels of service to our customers	Unit of measurement	Customer promise	Target 2017/18	Actual 2017/18	Pass / Fail	Target 2018/19
Overall performance assessment score	Number	£	224	236	👍	227

Our best ever score

NI Water staff member with one of our business customers.

1. Watching the pennies

From 1 April 2018, non-domestic water and wastewater charges rose by 3.35% on average which was below the prevailing rate of inflation and less than the maximum allowed increase. The decision to limit the increase was, in part, due to the additional sustainable cost savings which NI Water has secured. In limiting the increase in this way, we have sought to strike a balance between our need to generate sufficient income to allow us to continue delivering our services and minimising impact on business customers.

NI Water, like other businesses, has been impacted by rising electricity costs and other cost increases outside our control. Whilst the cost of providing water and sewerage services to our customers has risen, we have been able to absorb some of these and minimise the increase in our tariffs. We have worked closely with the Utility Regulator and with the Consumer Council to ensure that any increase remains as low as possible, and continues to represent good value for money. This rise, coupled with our decision to limit rises in the previous two years, means businesses will still be paying less, in real terms, for their water and wastewater services than they did at the start of the PC15 period.

2. Brainpower

NI Water Innovation Day.

Innovation was the topic of the day at the first innovation event run in Northern Ireland for the water sector. NI Water created an opportunity for companies and entrepreneurs to have a chance to pitch their ideas to key influencers in the water industry. The informative and interactive event was attended by many industry experts such as John Joyce, Chief Economist at the Stockholm Water Institute and Richard Kirk from the Institution of Civil Engineers. Innovation is key to driving efficiency and improving service and our customers and stakeholders both demand and expect it. The quality and creativity of the presentations were first class, showcasing the wealth of talent and expertise available to drive forward the Northern Ireland economy. The event focused on smart networks, lowering total asset lifecycle costs and advanced information technology. Three companies were selected to work with NI Water with the view to furthering their idea or product, which will be subject to the full tendering process.

3. Getting closer

Open day for the NI Water supply chain.

We are moving to a more collaborative approach with our supply chain via the creation of a number of integrated partnerships to supersede the existing frameworks for delivering our capital investment programme. The partnering approach focuses on appointing a reduced number of key framework contractors who will work more closely with NI Water, be involved earlier in the scoping and design stages of solution development, and share greater risk and reward. We held an open day to brief interested parties on the procurement process, which was attended by over 100 representatives from the supply chain. Briefings have also been held with the Construction Employers Federation and the Association for Consultancy and Engineering.

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

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

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

Risk and resilience

Increasingly, NI Water faces downside risks (threats) which are external to the organisation. For example, legislation which makes NI Water responsible for the actions of organisations in our supply chain, uncertainty regarding funding, Brexit, cyber-attacks and adverse weather. While management of these threats is to a large extent outside the control of NI Water, we recognise the need to build a resilience culture in order to protect the value we create.

During the year, NI Water introduced our integrated risk and resilience framework which demonstrates the interconnectivity between risk and resilience, and the need for accountability to protect value creation.

NI Water's integrated risk and resilience framework

NI Water's integrated risk and resilience model

Integrated

The framework and the model outline the requirement for risks (threats and opportunities) to be managed on a cross-directorate basis and with input from external partners where required (e.g. supply chain, contract management between procurement and service users etc).

Resilient

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

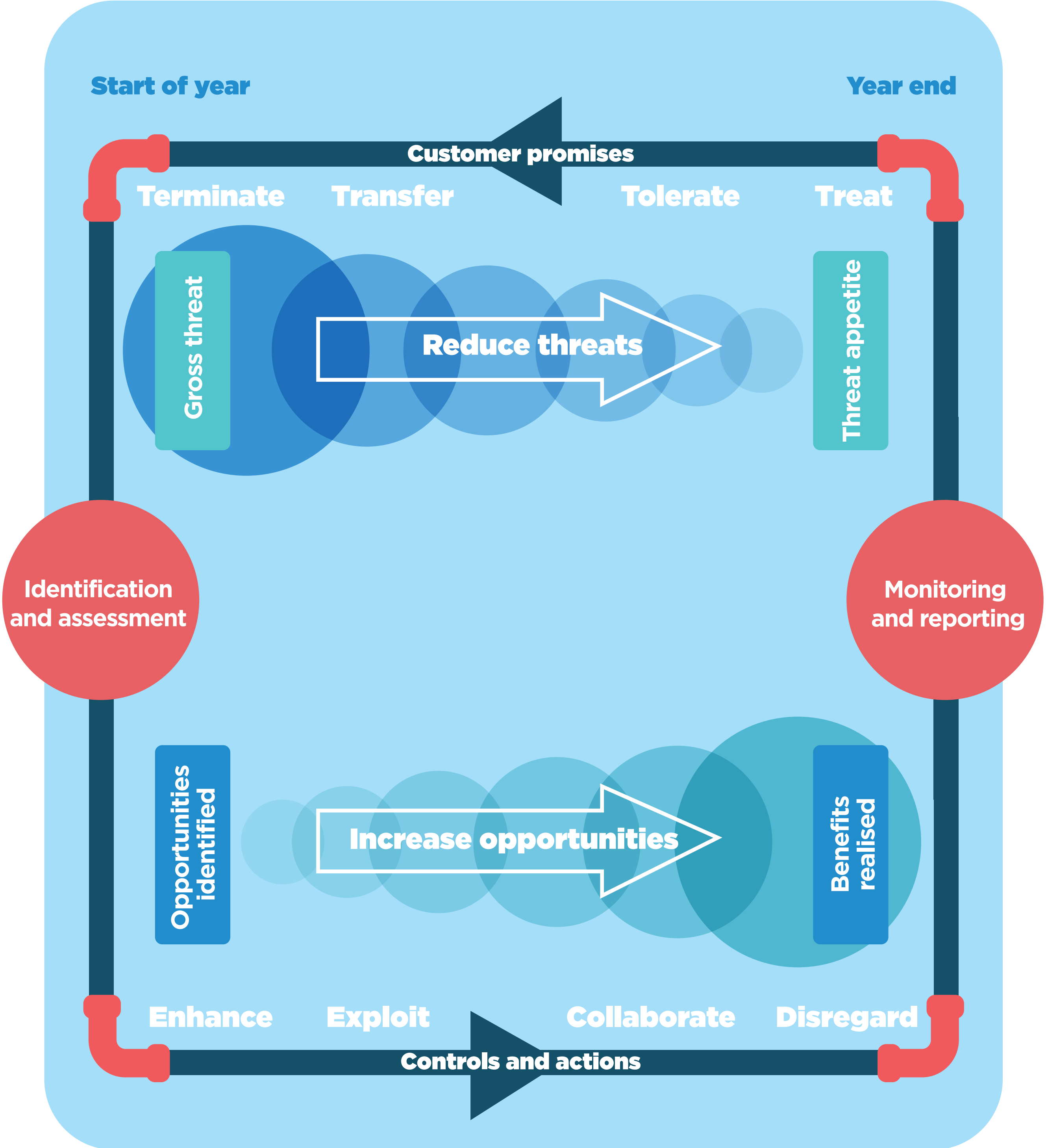
NI Water defines resilience as 'the strategic and organisational capacity of NI Water to resist, respond to, and recover from disruptive threats both foreseen and unforeseen'.

Having a resilience culture within NI Water means that all employees have the clear mind-set that it is not a case of 'if' an incident occurs, rather it is 'when' that incident does occur. It means putting plans in place to ensure that, when an incident does occur, NI Water is adequately prepared so that disruption is minimised and the organisation can return to 'business as usual' in the most effective and efficient way possible. In order to ensure that resilience is considered as part of the risk management process, all the corporate risk maps for both threats and opportunities now have a section which records the actions to be put in place to ensure that NI Water is resilient.

Strategic threats and opportunities

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 risk (threats) that could have a detrimental impact on the achievement of the customer promises but also to consider the upside risk (opportunities) towards deriving better outcomes for customers, as shown below:

NI Water's approach to risk management



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

The threat and opportunity, the risk grading and the risk appetite are approved by the Board. The Board receives a monthly progress report on the management of risks towards the projected risk appetite.

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

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

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

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

Page 75
Read more about risk management.

Emerging from the corporate threat and opportunity maps are a number of significant strategic threats and opportunities (described as principal in the UK Corporate Governance Code). For each strategic threat or opportunity, we have identified the related customer promise and the change in the level of threat or opportunity over 2017/18.

Strategic threat	Customer promise	Level of threat[5]
ST1 Business performance and efficiency savings		=
ST2 Governance model and capital investment		=
ST3 Asset resilience and climate change		=
ST4 Data integrity and cyber risk		▲
ST5 Pension fund		▲
ST6 Health and safety		= [6]
Strategic opportunity	**Customer promise**	**Level of Opportunity[7]**
SO1 Customer service improvement and innovation		▲
SO2 Well being		▲
SO3 Living with water programme		=
SO4 Stakeholder engagement and environmental enhancement		=

5 This column represents a change in the level of threat compared to what was reported in 2016/17. An upward arrow means that the level of threat has increased when compared to the prior year.

6 In 2016/17 Health and Safety was treated as an opportunity and included as part of Health, Safety and Well being. Further commentary is included in the detailed descriptor of ST6.

7 This column represents the change in the level of opportunity compared to what was reported in 2016/17. An upward arrow means that NI Water has increased the benefit it has derived from this opportunity.

Strategic threats

ST1 Business performance and efficiency savings

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

Background to the threat

NI Water is subject to certain threats 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 Utility Regulator concluded within the PC15 Mid-Term Review that NI Water Limited has performed well against a backdrop of reduced public expenditure funding and is broadly delivering against the majority of the Final Determination targets. However, the level of efficiencies required over the remainder of PC15 will present challenges in terms of delivering these savings and at the same time, improving service performance. In addition, the current uncertainty regarding the availability of funding for the remainder of PC15 may create difficulties in terms of development of future capability.

Managing the threat

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 threat 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.

ST2 Governance model and capital investment

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

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

Background to the threat

The current arrangements for the governance of NI Water as both a regulated GoCo and a NDPB bring with it certain challenges, 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 threat

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

NI Water is taking action to ensure there is adequate momentum on PC15 targets to inform our PC21 Business Plan, to improve the robustness of capital business cases and ensure they are subject to a higher degree of internal scrutiny.

ST3 Asset resilience and climate change

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

Background to the threat

NI Water inherited an aged asset base and much investment is required to bring it to a comparable level by UK and European standards. The 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 threat that NI Water 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 threat

NI Water continues to work with the Utility Regulator and DfI on medium and long term funding arrangements to make further improvement to its assets and take opportunities to manage exposure to threats associated with climate change. During the year, NI Water introduced the integrated risk and resilience framework, the aim of which is to improve resilience. NI Water's business continuity management framework and major incident plan are continually being updated to reflect best practice and key learning points from annual testing, exercises and previous major incidents. 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.

ST4 Data integrity and cyber risks

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

Background to the threat

The introduction of the General Data Protection Regulation (GDPR) in May 2018 brings increasing regulatory requirements in respect of privacy and the storage and retention of personal information. The Network and Information Security (NIS) Regulation, mandatory for Operators of Essential Services, applicable from 10 May 2018, establishes a set of principles to improve the security of network and information systems across the UK.

Cyber crimes are increasing in both frequency and disruptive potential; leading to disruption to services, interruption to computer control systems and impact on data integrity. This could have a significant adverse impact on business performance over the recovery period.

Managing the threat

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

A GDPR Implementation Group, with membership from key business areas, was established. Actions from the implementation plan ensured that appropriate policies, processes and procedures were in place to achieve legislative compliance by May 2018.

Management is continually working to improve cyber resilience through updating of systems controls, compliance with IT system supplier updates and through training and awareness programmes. An action plan has been developed in response to an external report on cyber security readiness and significant work is ongoing in this regard. Management has given consideration to the NIS Regulation Principles and how these will apply to NI Water.

ST5 Pension fund

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

Background to the threat

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

Managing the threat

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

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

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

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

ST6 Health and safety

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

Background to the threat

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

During the year health and safety was being managed as an opportunity. However, there have been a number of preventable health and safety incidents during the year which have led to an increase in the absence levels related to health and safety. NI Water recognizes that there is further work to be undertaken in relation to the behavioural aspects of health and safety and is committed to doing this. Health and safety is now managed as a threat.

Managing the threat

A new Head of Safety was appointed to assist NI Water in bringing about behavioural and cultural improvements to enable us to work towards our 'zero harm' ambition.

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

NI Water staff at our bespoke health and safety training facility at Antrim, Co Antrim.

Strategic opportunities

SO1 Customer service improvement and innovation

Innovation in service delivery and business processes through enabling technology.

Background to the opportunity

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

Managing the opportunity

During the year, two integrated constructed wetlands have been completed, with a further two in progress. These wetlands provide improved wastewater treatment whilst creating an aesthetically pleasing, biodiversity-rich area with potential for recreational usage.

We continue to implement actions from our digital programme. Over 2018/19, we plan to significantly increase the number of customers we survey to gather near real time feedback about their experience of dealing with us. Other work that NI Water is progressing includes proactive texting, web self-service enhancements and improved customer and call dashboards.

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

SO2 Wellbeing

Opportunity to increase the overall wellbeing of employees.

Background to the opportunity

We have taken the opportunity to put in place a highly innovative health and wellbeing programme, which takes into account our workforce demographics, our engagement survey results and the business benefits of enhancing the wellbeing of employees. Our programme strategically focuses on improving the physical and mental wellbeing of employees and supports our attendance and engagement targets.

Managing the opportunity

Our health and wellbeing team has delivered a programme that includes initiatives such as retirement seminars to support our employees (aged over 50) in the transition from work to retirement, dedicated workplace counselling on site, mental health courses and mental health training, and mental health first aid champions. We have also introduced employee wellbeing champions who represent employee views on wellbeing and meet regularly to input and champion the health and wellbeing programme. The quality and impact of our health and wellbeing programme has been recognised externally, as NI Water has been named winner of the Outstanding Human Resources Initiative category at the 2018 Global Business Excellence awards.

Over 1,000 colleagues have participated in our Cares Challenge volunteering programme – making it one of the largest corporate volunteering schemes in Northern Ireland.

Staff Volunteering at Crosskennan Lane Animal Sanctuary, Co Antrim.

SO3 Living with water programme

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

Background to the opportunity

In July 2014 the NI Executive agreed to develop a strategic drainage infrastructure plan for Belfast. 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 from three Departments: DfI, which is responsible for water, rivers and roads; DoF, which is responsible for prioritising the resources available to Northern Ireland; and DAERA which is responsible for the environment. NI Water actively participates in the programme, together with the Utility Regulator, Strategic Investment Board and Belfast City Council. The work of the programme is initially focused on greater Belfast due to the particularly urgent need for an agreed plan for that area. The programme is also developing an integrated drainage investment planning guide for use throughout Northern Ireland.

Managing the opportunity

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

This requirement to fund these essential infrastructure improvements has been factored into the draft Investment Strategy for Northern Ireland.

SO4 Stakeholder engagement and environmental 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

Threats relating to the funding required to maintain our existing aged assets and increasing demands for capital replacement programmes are noted in the Strategic Threats (ST2 and ST3) 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

There is significant engagement with DfI, the Utility Regulator and others to plan the future infrastructure of NI Water. This engagement helped facilitate the completion of a £7million project to develop a solar farm to supply electricity to the Dunore water treatment works in South Antrim. The energy needs of the Dunore Water Treatment Works have been met and NI Water is able to contribute spare capacity to the grid.

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

An example of managing this opportunity is through recognition. NI Water won the Outstanding Green Initiative category at the 2018 Global Business Excellence Awards. The award was for the visible impact on the environment from the Ballynacor Wild Flower Meadows project. NI Water transformed a piece of land by planting native species to enhance biodiversity and provide a habitat for endangered species and wildlife.

‘Water’ lesson for 100,000 pupils

For more than a decade, our multi-tiered educational programme, with a focus on school children, has delivered a comprehensive series of campaigns, tailored specifically in terms of message, delivery mechanism and language to different audiences – young people, family, businesses, retail and the wider community. Our programme complements the Northern Ireland School Curriculum and has reached over 100,000 school children. We also promote the responsible use of water and how it can contribute to a healthy lifestyle.

P6 pupils from Abercom Primary School, Banbridge, Co Down, with their teacher and NI Water staff.

Brexit – for noting

There remain significant uncertainties over Brexit. We have considered the threats and opportunities surrounding Brexit and have established an internal working group to manage its impact. However, given NI Water Limited’s status as a NDPB, it is not permitted to commit to actions that may result in costs that may subsequently prove to be nugatory given the ongoing uncertainties.

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

Our finances explained

Revenue

Government subsidy

We receive subsidy from the DfI in lieu of deferred domestic charges. In 2017/18 we received a subsidy of £290.5m.

Bills

We bill non-domestic customers which generated £76.3m of revenue in 2017/18 and Road Drainage charges of £21.0m from DfI.

Other income

Other forms of income were £44.0m in 2017/18.

Day-to-day operating costs

Our day-to-day running costs totalled £275.1m in 2017/18. These costs include staff, power, rates, hired and contracted services.

Operating profit

Operating profit (revenue less day-to-day operating costs) was £156.6m in 2017/18.

Financing our investment

Interest on our borrowings from DfI £44.7m and our Public Private Partnership liabilities £17.0m comprised the majority of our net finance charges of £62.1m in 2017/18.

Profit before tax

The profit before tax was £94.5m in 2017/18.

Corporation tax

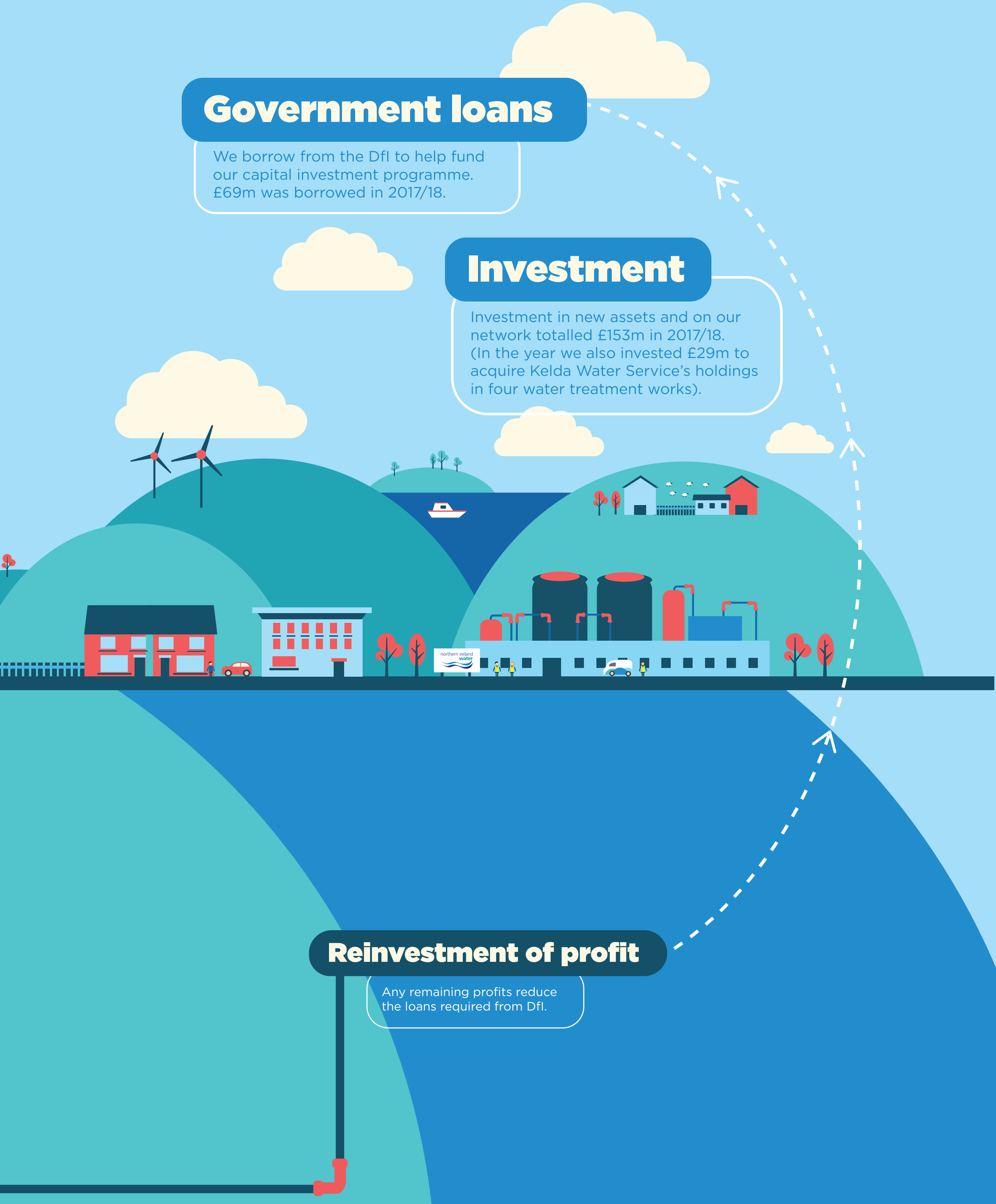
We have not paid any corporation tax due to capital allowances, which defer our tax to future years, when the benefits of the investments are realised. The tax charge was £18.1m in 2017/18.

Profit after tax

The profit for the year was £76.4m and this includes the value of adopted assets from customers of £31.2m (included as "other income" in the caption above and is a non-cash item).

Dividend

A dividend of £24.5m was paid to the DfI in 2017/18.


Government loans
We borrow from the DfI to help fund our capital investment programme. £69m was borrowed in 2017/18.
Investment
Investment in new assets and on our network totalled £153m in 2017/18. (In the year we also invested £29m to acquire Kelda Water Service's holdings in four water treatment works).
Reinvestment of profit
Any remaining profits reduce the loans required from DfI.

Financial performance

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

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

Our appointed business relates to the provision of certain water and 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 88 to 154
Read our statutory Accounts.

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

In November 2017 NI Water Limited acquired Kelda Water Services' holdings in a number of companies which are contracted to provide bulk drinking water supplies under a Public Private Partnership arrangement. Further information on the formation of the Group can be found at page 107.

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

The £76.4m profit after tax for the year is an accounting profit and provides no additional spending power either to NI Water or to DfI.

Consolidated Statement of Comprehensive Income

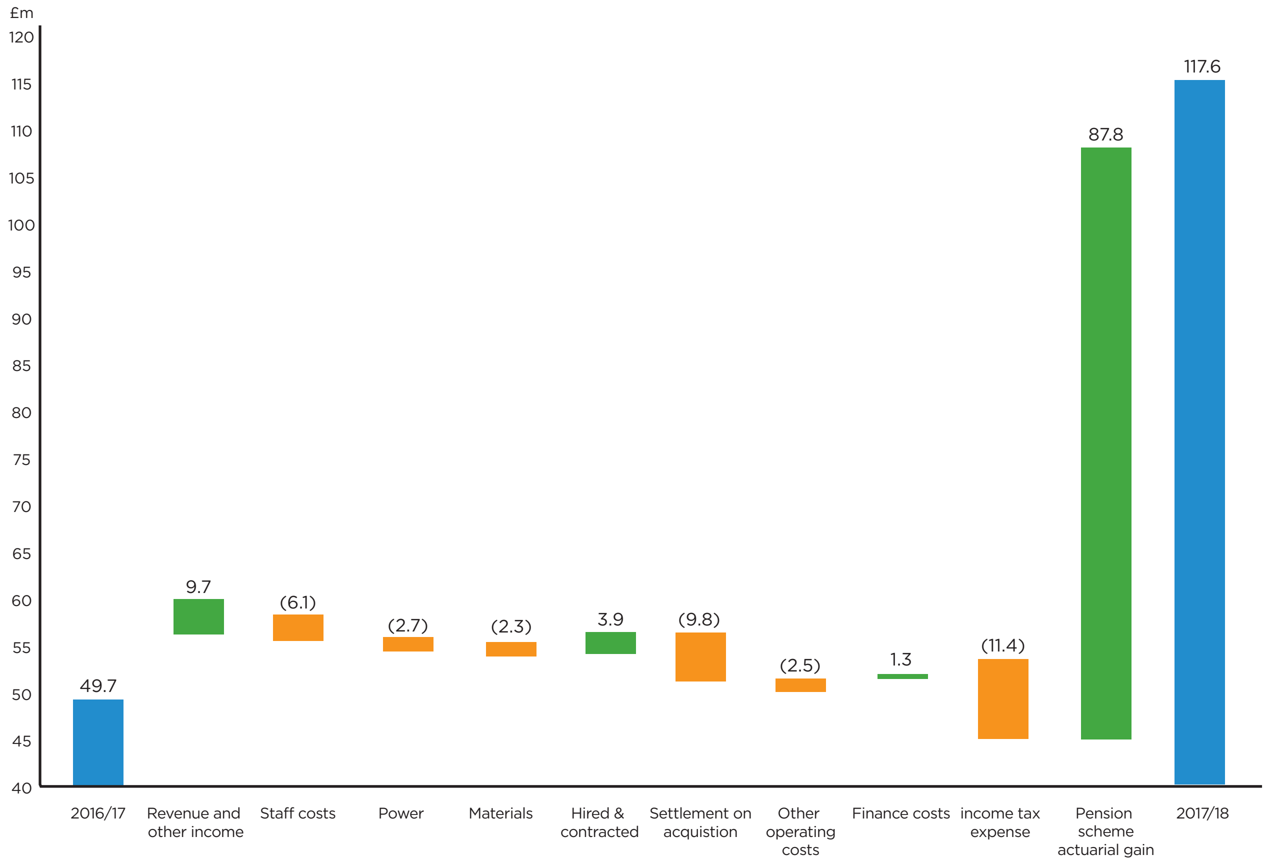
Our Consolidated Statement of Comprehensive Income as presented on page 91 is summarised below.

Summary Consolidated Statement of Comprehensive Income

	Year to 31 March 2018 £m	Year to 31 March 2017 £m
Revenue	**431.8**	422.4
Results from operating activities	**156.6**	166.4
Net finance charges	**(62.1)**	(63.5)
Profit before tax	**94.5**	102.9
Income tax expense	**(18.1)**	(6.6)
Profit for the year	**76.4**	96.3
Other comprehensive (income) / expenditure, net of income tax	**41.2**	(46.6)
Total comprehensive income for the period	**117.6**	49.7

NI Water staff visit Dunore Water Treatment Works, Co Antrim, after the acquisition of Kelda Water Service's holdings.

Movement in total consolidated comprehensive income for the period



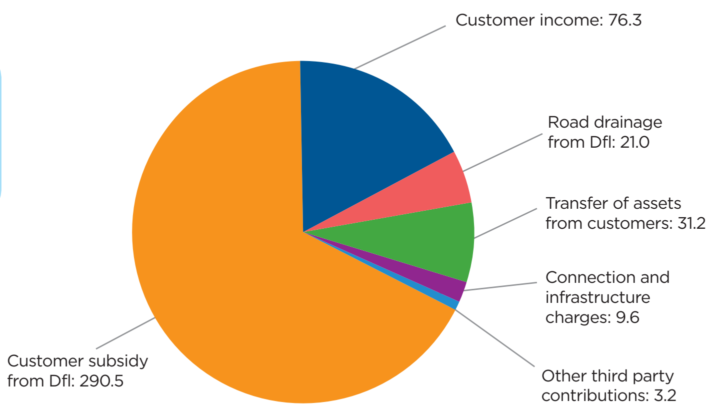
Revenue

Domestic consumers are not charged directly for water and wastewater 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 2018/19.

Revenue was £431.8m for the year to 31 March 2018 (2017: £422.4m). Included in revenue was £311.5m (2017: £305.0m) received from DfI, being subsidy of £290.5m (2017: £284.4m) and road drainage charges of £21.0m (2017: £20.6m). All the revenue was in relation to NI Water Limited as subsidiary revenue was all within the Group.

Sources of revenue 2017/18 (£m)



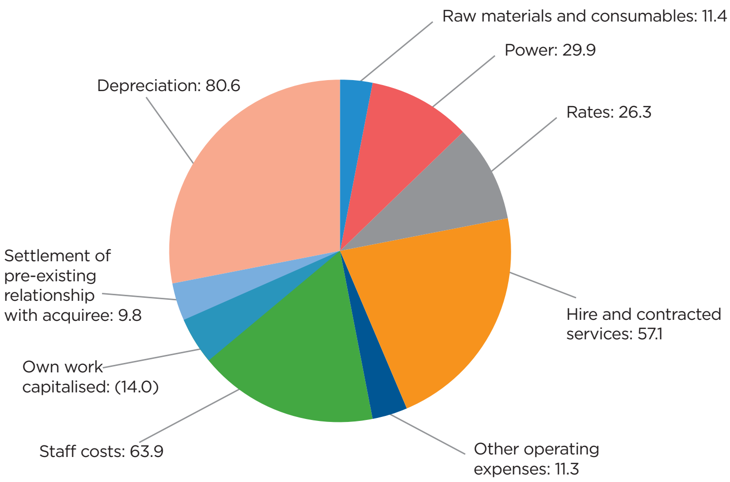
See Statutory Accounts Note C1.

Operating activities

Operating expenses in 2017/18 of £276.2m (2017: £256.8m) increased from last year. The increase primarily resulted from higher costs of staff and power offset in part by lower hired and contracted service costs. In addition in 2017/18 there was a write-down on acquisition of £9.8m to recognise the effective settlement of the pre-existing PPP contract between NI Water Limited and Dalriada Water Limited. See Statutory Accounts Note A5.

Results from operating activities before interest for the year was £156.6m (2017: £166.4m).

Operating expenses 2017/18 (£m)



See Statutory Accounts Note D1.
(Figures may not add due to rounding).

It is estimated that in 2017/18 NI Water Limited made efficiencies of £1.5m in operating costs compared to the previous year and taking account of inflation and other one-off costs.

NI Water is one of the largest users of electricity in Northern Ireland. We spent around **£29.9m** on **power** in 2017/18.

Finance income and costs

The net finance costs are primarily due to interest on our borrowings of £44.7m (2017: £43.6m) and on our Public Private Partnership (PPP) liabilities of £17.0m (2017: £19.8m) and net finance costs on the pension fund of £1.6m (2017: £0.2m) partly offset by £1.1m fair value increase in the value of derivative financial instruments and bank interest received of £0.1m (2017: £0.1m). See Statutory Accounts Note B2.

Taxation

The tax charge for the year was £18.1m (2017: £6.6m). The effective tax rate for the year to 31 March 2018 was (19.1%) (2017: 6.4%). 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 £26.5m in July 2018 (2017: £24.5m). See Statutory Accounts Note B3.

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

Capital structure

The Consolidated Statement of Financial Position at 31 March 2018 as presented on page 89 is summarised below.

Total assets increased by 5.0% to £3,074m (2017: £2,928m).

Our net debt[8] figure was £1,283.6m at 31 March 2018 (2017: £1,218.6m).

Gearing (the ratio of net debt to equity and net debt) was 47.9% (2017: 48.4%).

Summary Consolidated Statement of Financial Position

	At 31 March 2018 £m	At 31 March 2017 £m
Total non-current assets	**3,022.6**	2,887.3
Total current assets	**51.9**	41.0
Total Assets	**3,074.5**	2,928.3
Equity	**1,393.9**	1,300.8
Total non-current liabilities	**1,543.5**	1,484.4
Total current liabilities	**137.1**	143.1
Total liabilities	**1,680.6**	1,627.5
Total equity and liabilities at 31 March	**3,074.5**	2,928.3

Liquidity

Operating activities generated a net cash inflow of £204.7m (2017: £212.6m). Net cash outflows of £168.3m (2017: £147.8m) related to investing activities. Net financing activities created a cash outflow of £28.2m (2017: £64.3m).

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 £160.4m** (2017: £149.0m), acquisition of subsidiaries net of cash acquired of £9.7m (2017: £nil), proceeds from the sale of property, plant and equipment of £1.5m (2017: £1.1m) and interest received of £0.1m (2017: £0.1m).

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

8 Refer to Notes A8 and B1 in the Statutory Accounts. Net debt consists of loans from DfI of £1,082.6m (2017: £1,013.6m), external loans relating to subsidiaries of £87.4m (2017: N/A), derivative financial instruments of £10.3m (2017: £nil); and finance leases of £115.7m (on consolidation Alpha finance lease excluded) (2017: £208.6m) less cash and cash equivalents of £12.4m (including £8.5m from consolidated

Pension funding

The pension scheme was valued at a liability of £22.8m at 31 March 2018 (2017: liability of £66.0m). This was made up of a total market value of assets of £233.4m (2017: £239.7m) less actuarial value of liabilities £256.2m (2017: £305.7m). The decrease in the liability has been driven primarily by the effects of changes to demographic and financial assumptions including lower inflation. See Statutory Accounts Note E1.

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

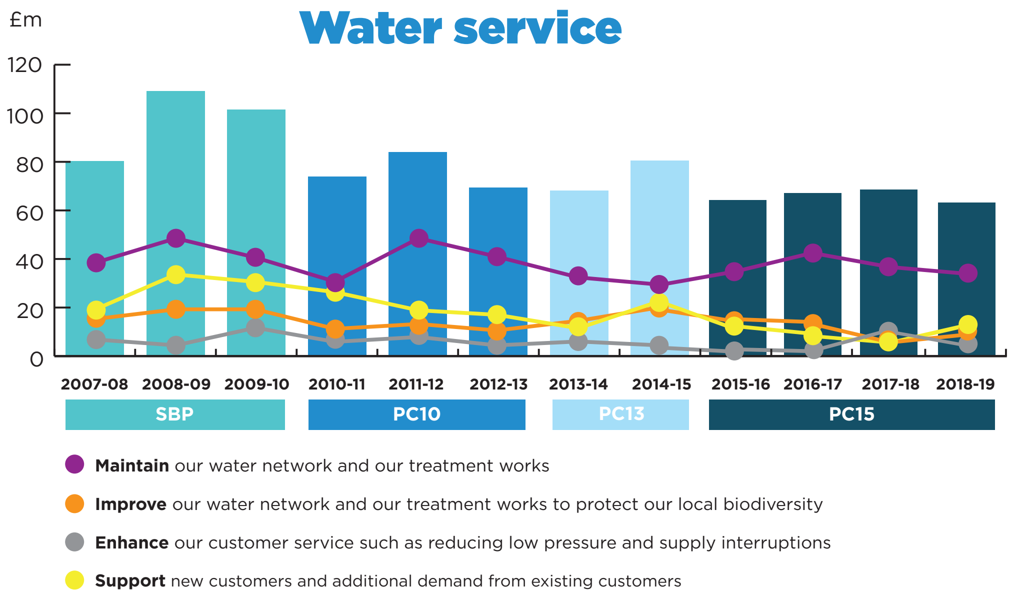
Investing in our water and wastewater infrastructure

We have invested £2.1 billion in Northern Ireland's water and sewerage infrastructure since our formation in 2007/08.

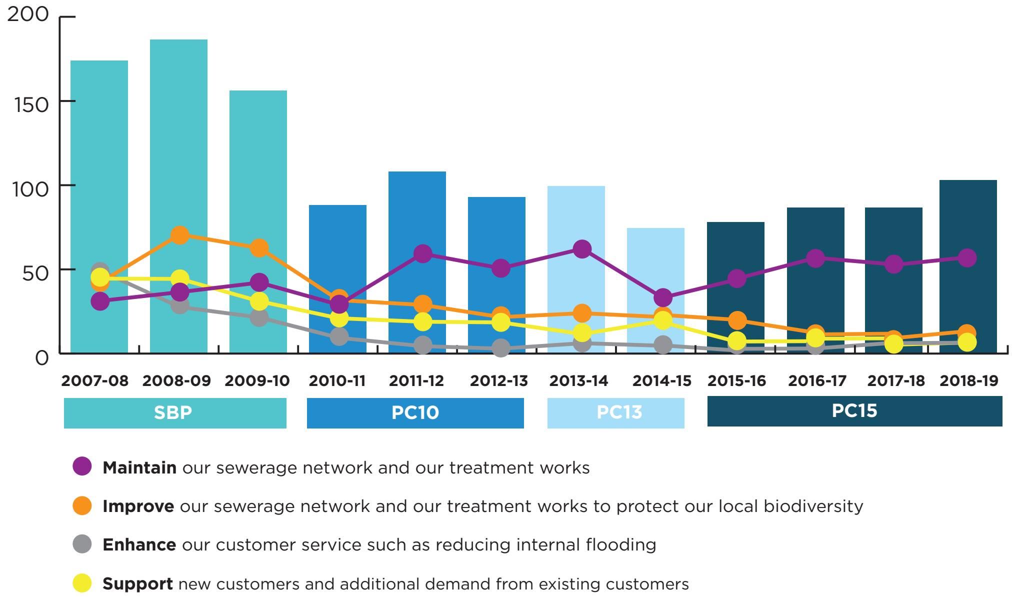
Around £153m of capital investment was delivered during 2017/18. £92m was invested in maintaining the current assets and a further £61m was invested to deliver quality enhancements, improve service and accommodate growth. Investment of £163m is planned for 2018/19.

Investment in 2017/18 included the completion of **3 Wastewater Treatment Works**, remediation of **11 unsatisfactory intermittent discharges** and laying approximately **126km of new, renewed and relined water mains**.

Water service



Wastewater Service



This Strategic Report was approved by the Board of Directors on 24 July 2018 and signed on its behalf by Mark Ellesmere, Company Secretary.

Mark Ellesmere
Company Secretary
24 July 2018

Governance

Sustainable wastewater treatment using a wetland at Castle Archdale, Co Fermanagh.

Corporate governance

Chairman's introduction

I am pleased to present the Corporate Governance Report for 2017/18. This report describes the key features of NI Water's corporate governance structure and compliance with the relevant provisions given NI Water Limited's status as a GoCo under the Companies Act 2006 and as a NDPB sponsored by DfI. The Board is committed to the principles of good corporate governance.

Compliance statement

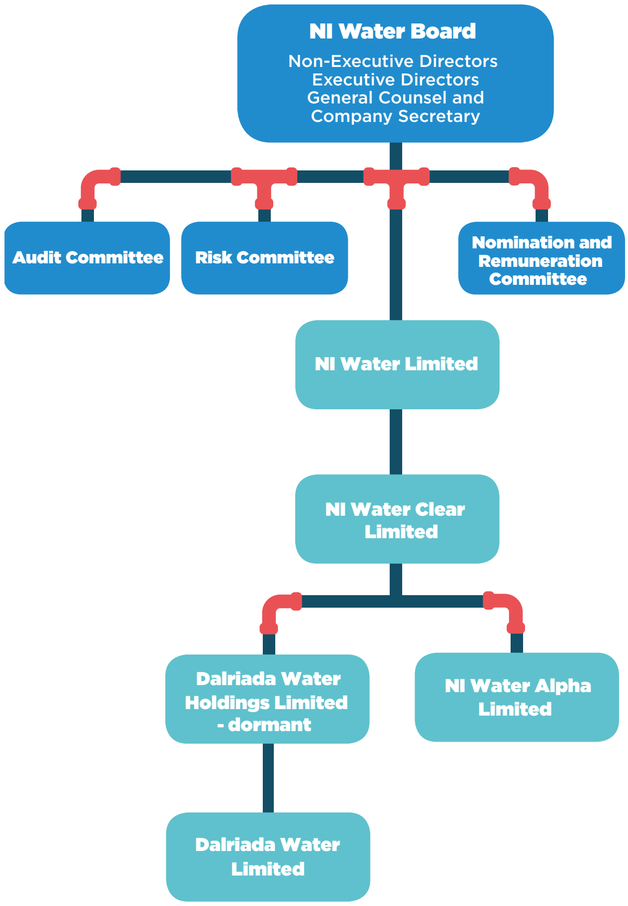
The Board has taken into consideration the governance arrangements established between NI Water Limited and DfI through the Management Statement and Financial Memorandum (MSFM) and the relevant governance provisions in the DoF guidance entitled 'Managing Public Money Northern Ireland' (MPMNI).

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

In November 2017 NI Water Limited acquired a number of companies which are contracted to provide bulk drinking water supplies under a Public Private Partnership arrangement. Further information on the formation of the Group can be found at page 107. A governance review has been initiated to provide the NI Water Board with assurance that post completion governance arrangements for subsidiaries within the NI Water Group are appropriate and in line with good industry practice and NI Water Limited's regulatory licence.

Board and Executive Committee

The Board and Executive Committee structure is shown below:



Operation of the Board

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

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

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

Board committees

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

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

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

Length of service

The time served by Board members is shown below:

	Length of service as at 31 March 2017 (full years)	Date of appointment	Date of cessation
Dr Leonard J. P. O'Hagan, CBE	3	1 April 2015	31 March 2019
John Rae	6	22 August 2011	31 July 2019
Peter McNaney, CBE	2	1 August 2015	31 July 2019
Jim McCall	2	1 August 2015	31 July 2019
Trisha McAuley, OBE	2	1 August 2015	31 July 2019
Kingsley Donaldson	2	1 August 2015	31 July 2019
Sara Venning	7	21 May 2010	n/a
Ronan Larkin	12	19 September 2005**	n/a
Sean McAleese	3	12 January 2015	n/a
Mark Ellesmere	11	26 June 2006**	n/a
Paul Harper	1	1 January 2017	n/a

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

Performance and effectiveness reviews

During the year, a Board Effectiveness Review was undertaken using an external facilitator, EY. EY also provides support to the Company's business improvement programme.

The Review included a semi-structured interview with each member of the Board conducted by EY. Matters arising from the Review regarding the Corporate Governance Environment include, amongst others, an observation that the co-terminus nature of the appointment of Non-Executive Directors of the Board could give rise to a potential issue around succession planning and could have a direct impact on the effective operation of the Board. The review also observed the limited role and function of the Nomination and Remuneration Committee given existing processes around public sector appointments and public sector pay. A number of actions were agreed which will be implemented during the current year.

Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2017/18 are shown below:

	Board meeting		Audit Committee		Risk Committee		Joint Audit Committee and Risk Committee		Nomination and Remuneration Committee	
	Held[8]	Attended	Held[8]	Attended	Held[8]	Attended	Held[8]	Attended	Held[8]	Attended
Dr Leonard J. P. O'Hagan, CBE	11	11	-	-	-	-	-	-	2	2
John Rae	11	11	4	3	6	6	1	1	2	2
Peter McNaney, CBE	11	11	4	4	-	-	1	1	2	2
Jim McCall	11	9	4	3	-	-	1	1	-	-
Trisha McAuley, OBE	11	9	-	-	6	4	1	1	-	-
Kingsley Donaldson	11	11	-	-	6	6	1	1	-	-
Sara Venning	11	11	4	4	6	6	1	1	-	-
Ronan Larkin	11	11	4	4	6	6	1	1	-	-
Sean McAleese	11	11	-	-	6	6	1	1	-	-
Mark Ellesmere	11	11	4	4	6	6	1	1	2	2
Paul Harper	11	11	-	-	6	6	1	1	-	-

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

Dr Leonard J. P. O'Hagan CBE
Chairman
24 July 2018

Report by Peter McNaney, CBE

Chair of the Audit Committee

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

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

Significant matters

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

- **Risk relating to financial funding:** the Audit Committee was kept updated during the year of the funding position for 2017/18 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 2018/19 and ongoing liaison with DfI to reach a medium term settlement for future years;
- **Acquisition of companies:** the Audit Committee considered the appropriate accounting treatment on the acquisition and consolidation of the subsidiary companies during the year. This included fair value accounting; the value and treatment of goodwill in the Group accounts and the treatment of the PPP contract in Dalriada Water Limited's accounts;
- **Risk relating to the pension scheme:** the Audit Committee considered the funding position of NI Water Limited's defined benefit pension scheme in the light of changes in market conditions and the emerging triennial valuation being carried out by the Pension Trustees;
- **Future of Regulatory Accounting Requirements:** the Audit Committee was 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.

External Audit

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

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

KPMG was appointed as the external auditors in July 2013 following a competitive tendering exercise. The first set of accounts signed by the current audit partner, John Poole, was for the year ended 31 March 2016. The external audit contract was put out to tender during 2018 for the 2018/19 financial year end.

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 12.7 (2016/17: 2.5).

Internal Audit

The Audit Committee approved the Internal Audit Strategy, which includes reviews on corporate governance. During the year, the Committee approved the updated Internal Audit Charter to ensure that it fully reflected the International Professional Practices Framework. The Committee also monitored completion of the 2017/18 audit plan. The Head of Internal Audit provided a progress report to each Audit Committee meeting, which included an overview of audit review findings, follow up status of recommendations and summary of any advisory activity. The Head of Internal Audit had the opportunity to meet with the Chairman of the Audit Committee without management to discuss NI Water's overall control environment. The Audit Committee assessed the safeguards in place to protect the independence of the Internal Audit Function. In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit provided an annual self-assessment of the function's performance to the Audit Committee.

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

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

Peter McNaney, CBE
24 July 2018

Report by John Rae,

Chair of the Risk Committee

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

Significant matters

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

- **Corporate risks:** the Risk Committee considered the proposed corporate threats and opportunities at the start of the financial year and recommended these for Board approval;
- **Corporate threat and opportunity maps:** over the financial year, the Risk Committee considered significant threats and opportunities to achieving customer promises. This included top ten asset risks for the short and medium term, attendance, Well being and health and safety;
- **Integrated risk and resilience framework:** the Risk Committee approved the integrated risk and resilience framework in February 2018;
- **Business continuity management:** the Risk Committee received updates regarding business continuity management, test exercises and IT disaster recovery plans; and
- **Cyber security:** the Risk Committee was kept updated regarding ongoing work related to cyber security.

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

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

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Risk Committee's Terms of Reference. A formal report was presented to the Board in July 2018.

John Rae
24 July 2018

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

Members of the Risk Committee and NI Water staff pictured with the Risk Management Award received at the 2018 British Insurance Awards. The award was for our innovative approach to Risk management and resilience.

Governance Statement

Introduction

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

Scope of responsibility

As Chief Executive and Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of NI Water's purpose, vision and customer promises. I am also responsible for safeguarding the public funds and the 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 NI Water's performance.

The work of NI Water 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 supported by manage threats and opportunities to a reasonable level, and to achieve NI Water's purpose, vision and customer promises. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is supported by an integrated risk and resilience framework to provide an ongoing process to identify and prioritise the threats 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.

NI Water's integrated governance framework, supported by the integrated risk and resilience framework provides the appropriate structure 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 2018 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 policies were revised during the year to formalise the concept of resilience in the risk management process. The new integrated risk and resilience framework was approved in February 2018 and clearly defines the roles and responsibilities of the Board, its Committees, the Executive Committee, Directors, Risk Champions and employees. There is a clear chain of accountability from the Accounting Officer to all colleagues. The policies provide 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 threats and opportunities at the start of the year. This included benchmarking of threats 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 together with horizon scanning to identify future potential threats and opportunities.

During the year, the Executive Committee met on a quarterly basis to assess and evaluate threats and opportunities and agreed the necessary improvements required to address evolving business needs. The corporate and directorate threat and opportunity registers have clearly defined owners. These registers were reviewed on a continual basis using risk management software, with monthly reports generated for monitoring purposes. A detailed threat and opportunity map was used to identify the consequences, controls and required actions and was presented to the Risk Committee and Board. Corporate threats 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 threats and opportunities can also be escalated to senior management's attention when they are graded as 'high' or 'medium'. An established escalation process is also in place to alert the Chief Executive, Board and Stakeholders of significant new issues.

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

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

Key risks materialising in year

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

Internal Audit

The Head of Internal Audit provided an 'Annual Opinion' on NI Water's system of governance, risk management and internal control. The opinion for the year ended 31 March 2018 is 'Satisfactory': 'While there is some residual risk identified this should not significantly impact on the achievement of the customer promises'.

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. In the current year this included an external review of cyber security readiness.

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 NI Water's system of internal control and risk management.

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

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

Chief Executive's Year End Assurance Statement – Exception Report

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

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

Sara Venning
Accounting Officer
24 July 2018

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2018.

Principal activities

The principal activities of NI Water (the Group) are the supply of water and the collection and treatment of sewage in Northern Ireland. The parent Company (NI Water Limited) is domiciled and incorporated in Northern Ireland. The Registered Number is NI054463 and the Registered Office is: Westland House, 40 Old Westland Road, Belfast, BT14 6TE. The parent Company is wholly owned by DfI. In November 2017 the parent Company acquired a number of companies which are contracted to provide bulk drinking water supplies under a Public Private Partnership arrangement. Further information on the formation of the Group can be found at page 107.

Going concern

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2018. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the parent Company operates as described below:

- NI Water Limited is subject to economic regulation rather than market competition. As a result, the parent Company provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, which designates NI Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland;
- following the NI Assembly decision to defer the introduction of domestic water charges, NI Water Limited receives funding by means of a subsidy provided by DfI. Due to the level of subsidy, NI Water Limited is also designated as a NDPB and is subject to public sector spending rules i.e. public expenditure;
- as required by the Licence, NI Water Limited 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 Limited 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 Limited engaged positively with the Utility Regulator and the Department to agree changes to 2015/16 and 2016/17 regulatory outputs due to reductions in public expenditure funding.

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

- based on reasonable forward planning scenarios for capital investment, NI Water Limited should have sufficient capital budget to deliver all of its defined PC15 outputs within the PC15 6 year period;
- but it is unlikely to allow investment in additional necessary quality improvements, which may need to be deferred to the PC21 period;
- the reduction in expenditure in line with inflation is being passed on to consumers through RPI+K price cap regulation and the PC15 outputs are being delivered; and
- PC15 Final Determination targets remain valid and should be used for planning and performance reporting for the rest of the PC15 period.

As a result, adjusted outputs were not formally agreed with the Utility Regulator for 2017/18.

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

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

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

Future developments

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

Dividends and reserves

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

It is anticipated that a final dividend of £26.5m for the year ended 31 March 2018 (2017: £24.5m[9]) will be approved by the Shareholder upon the recommendation of the Board in July 2018 and paid in August 2018 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2018.

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 72.

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

Directors' and Officers' indemnities

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

Policy on the payment of creditors

NI Water's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative agreements, the policy is to make payment not more than 30 days after receipt of a valid invoice. The year to date ratio, expressed in days, between the time invoices from large suppliers fall due and the time invoices were actually paid at 31 March 2018, was 32.7 days (2017: 32.3 days).

NI Water has adopted the public sector supplier payment policy for small and medium sized suppliers of 10 days after receipt of a valid invoice in accordance with the Northern Ireland Executive's policy. As at 31 March 2018, the year to date ratio stood at 11.4 days (2017: 11.1 days).

Political and charitable contributions

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

Research and development

NI Water invested £0.3m on research and development in 2017/18 (2017: £0.3m). Refer to Note G1(e)(i) to the financial statements for the accounting treatment.

Employees

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

9 This dividend in respect of the year ended 31 March 2017 was paid in August 2017.

Directors' interests in contracts

No Director had a material interest at any time during the year in any contract of significance with NI Water. Details of Directors' interests in other companies are disclosed in Note G4 to the Statutory Accounts.

Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2018, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of NI Water Limited in order that the purposes of a special administration order could be achieved if such an order were made

Regulation - 'cross directorships'

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

Greenhouse gas emissions

Details on greenhouse gas emissions are included on page 45.

Disclosure of information to auditors

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

Auditor

Pursuant to Section 487 of the Companies Act 2006, the current External Audit contract with KPMG will cease in November 2018. The tender process for a new contract is underway with an anticipated start date in November 2018.

By order of the Board

Mark Ellesmere
Company Secretary
24 July 2018

Directors' remuneration report

Nomination and Remuneration Committee

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

Board appointments and diversity

The Nomination and Remuneration Committee has responsibility for considering the size, structure and composition of the Board, retirements and appointments of additional and replacement Directors, succession planning and making recommendations to the Board and Shareholder so as to maintain an appropriate balance of skills and experience on the Board. This includes consideration of gender and ethnic diversity. The Shareholder appoints the Chair and all other Non-Executive Board members and participates in and approves the appointment of all executive Directors to the Board.

Remuneration policy

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

Base salaries

Under the policy, base salaries for each Executive Director and Executive should be reviewed annually taking into account inflation. Notwithstanding this policy NI Water Limited has been subject to public sector pay policy in 2017/18 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 2017/18 for Executive Directors and Senior Managers.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

Group Companies

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

Non-Executive Directors' remuneration

A fee of £850[10] per day is payable to the Chairman and £765[11] per day to the Non-Executive Directors. The higher fee for the Chairman reflects the additional responsibilities of that role. Further details on the attendance by the Non-Executive Directors are provided on page 73.

Directors' employment contracts

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

10 The fee per day payable from 1 August 2017 is £850 for up to four days per month, increasing to £1,020 per day for a maximum of five additional days.
11 The fee per day payable from 1 August 2017 is £765 for up to two days per month, remaining at £765 per day for a maximum of four wadditional days.

Fees paid to members of the Executive Committee

	Year to 31 March 2018					Year to 31 March 2017				
Current Executive Directors:	**Salary and allowances £000**	**Bonus £000**	**Benefits in kind (to nearest £100)**	**Pension benefits[12] £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**	**215 - 220**	150 - 155	-	-	62	210 - 215
Ronan Larkin	**115 – 120**	**-**	**-**	**46**	**160 - 165**	115 - 120	-	-	37	150 - 155
Sean McAleese	**110 - 115**	**-**	**-**	**25**	**135 - 140**	110 - 115	-	-	39	150 - 155
Paul Harper	**110 - 115**	**-**	**-**	**40**	**150 – 155**	25 - 30[13]	-	-	10[14]	35 - 40
Current member of the Executive Committee (not Executive Director):										
Mark Ellesmere	**110 - 115**	**-**	**-**	**52**	**160 - 165**	110 - 115	-	-	45	155 - 160
Alistair Jinks	**95 – 100[15]**	**-**	**-**	**38**	**135 - 140**	-	-	-	-	-
Rose Kelly	**25 - 30[16]**	**-**	**-**	**9[17]**	**30 - 35**	-	-	-	-	-
Former members of the Executive Committee (not Executive Director):										
Bill Gowdy, OBE	**0 - 5[18]**	**-**	**-**	**-**	**120 - 125[19]**	95 - 100	-	-	26	120-125
Martin McIlwaine	**-**	**-**	**-**	**-**	**-**	70 - 75[20]	-	-	18[21]	85 - 90

12 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.

13 £105k - £110k on a full year equivalent basis. Paul Harper was appointed as Director of Asset Delivery on 1 January 2017.

14 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.

15 Alistair Jinks was appointed to the Executive Committee on 1 April 2017.

16 £100k - £105k on a full year equivalent basis. Rose Kelly was appointed to the Executive Committee on 1 January 2018.

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

18 £95k - £100k on a full year equivalent basis. Bill Gowdy, OBE ceased to be a member of the Executive Committee on 7 April 2017.

19 The value of all pension related benefits are assessed over the period from 1 April 2017 to 7 April 2017, the date on which he ceased to be a member of the Executive Committee.

20 £85k - £90k on a full year equivalent basis. Martin McIlwaine ceased to be Interim Director of Asset Management on 14 January 2017.

21 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.

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 (2017: £150k to £155k). This was 4.91 times (2017: 4.98 times) the median remuneration of the workforce, which was £31,127 (2017: £30,345).

Group		
	Year to 31 March 2018 Total	Year to 31 March 2017 Total
Highest paid Director (£'000)	**150 – 155**	150 – 155
Median total remuneration (£)	**31,127**	30,345
Pay multiple (ratio)	**4.91**	4.98
Range of remuneration (£'000)	**10 - 155**	10 - 155

Fees paid to Non-Executive Directors

	Year to 31 March 2018				Year to 31 March 2017			
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, CBE	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Jim McCall	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Trisha McAuley, OBE	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Kingsley Donaldson	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20

Pension entitlements

Non-Executive Directors do not participate in NI Water's pension scheme. All Executive Directors are members of the defined benefit pension arrangements. The accrued pension entitlement is the amount that the Executive Director would receive if he/she retired at the end of the year. The increase in the accrued entitlement is the difference between the accrued benefit at the year end and that at the previous year end. Further details on pensions are provided in Notes E2 and G3 to the 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 2018[22] £000	Related lump sum at 31 March 2018[23] £000	Real increase in pension at age 60 £000	Real increase in lump sum at age 60 £000
Sara Venning	20 - 25	25 - 30	2.5 - 5.0	7.5 - 10.0
Ronan Larkin	25 - 30	-	2.5 - 5.0	-
Sean McAleese	55 - 60	165 - 170	0 – 2.5	5.0 - 7.5
Paul Harper	2.5 – 5.0	7.5 – 10.0	0 – 2.5	5.0 - 7.5
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	25 - 30	15 - 25	2.5 - 5.0	5.0 - 7.5
Alistair Jinks	20 - 25	-	0 – 2.5[24]	-
Rose Kelly	0 – 2.5	0 – 2.5	0 – 2.5	0 – 2.5
Former members of the Executive Committee: (not Executive Director):				
Bill Gowdy, OBE	10 - 15	35 - 40	0 - 2.5	0 - 2.5

22 Or date of leaving the Executive Committee if earlier.
23 Or date of leaving the Executive Committee if earlier.
24 Increase in pension since joining the Executive Committee on 1 April 2017.

Pension (CETV) benefits for members of the Executive Committee

Current Executive Directors:	CETV at 31 March 2018[25] £000	CETV at 31 March 2017[26] £000	Increase/(decrease) in transfer value less Director's contribution (net of inflation[27]) £000	Employer contribution (to nearest £100)
Sara Venning	**632**	554	**68**	37,600
Ronan Larkin	**841**	754	**77**	29,000
Sean McAleese	**2,103**	2,034	**54**	27,600
Paul Harper	**65**	13	**45**	27,100
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	**848**	777	**63**	27,500
Alistair Jinks	**694**	621	**65**	23,900
Rose Kelly	**11**	-	**10**	6,200
Former members of the Executive Committee:				
Bill Gowdy, OBE	**380**	377	**1**	500
Martin McIlwaine	**-**	1,470	**-**	-

Dr Leonard J. P. O'Hagan CBE
Chairman
24 July 2018

25 Based on accrued benefits at 31 March 2018 (or date of leaving the Executive Committee if earlier) and financial conditions as at 31 March 2018.
26 Based on accrued benefits at 31 March 2017 (or date of joining the Executive Committee if later) and financial conditions as at 31 March 2017.
27 CPI inflation of 1.0%.

Statement of Directors' responsibilities

The directors are responsible for preparing the directors' report, strategic report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

Each of the Directors, whose names are listed on page 72 confirm that, to the best of their knowledge:

- the Group financial statements gives a true and fair view of the assets, liabilities, financial position of the Group as at 31 March 2018 and of its profit for the year then ended;
- the Company statement of financial position gives a true and fair view of the state of Company's affairs as at 31 March 2018;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and parent Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board

Mark Ellesmere
Company Secretary
24 July 2018

Statutory Accounts

Killylane Water Treatment Works, Ballyclare, Co. Antrim.

Consolidated statement of financial position

	Note	**At 31 March 2018 £000**	At 31 March 2017 £000
Assets			
Property, plant and equipment	A1	**2,961,787**	2,848,193
Investment properties	A3	**6,447**	6,264
Intangible assets and goodwill	A4	**54,309**	32,778
Investments	A5	**-**	-
Other investments	A6	**28**	41
Total non-current assets		**3,022,571**	2,887,276
Inventories	A7	**2,673**	2,353
Trade and other receivables	C4	**23,730**	23,076
Unbilled revenue		**11,469**	9,852
Prepayments		**1,452**	1,368
Cash and cash equivalents	A8	**12,433**	3,622
Assets classified as held for sale	A9	**130**	790
Total current assets		**51,887**	41,061
Total assets		**3,074,458**	2,928,337
Equity			
Share capital		**500,000**	500,000
Statutory distributable reserve*		**171,690**	171,690
Retained earnings*		**722,240**	629,198
Available for sale reserve*		**(63)**	(50)
Total equity attributable to owner of the Company		**1,393,867**	1,300,838
Liabilities			
Loans and borrowings	B1	**1,278,525**	1,217,270
Other payables	D2	**12,404**	1,303
Deferred income	C2	**6,718**	5,906
Provisions	D3	**2,705**	2,891
Deferred tax liabilities	F1	**220,402**	191,046
Employee benefit	E2	**22,789**	65,984
Total non-current liabilities		**1,543,543**	1,484,400
Loans and borrowings	B1	**7,137**	4,843
Trade payables	D2	**110,828**	121,003
Other payables	D2	**13,636**	11,944
Deferred income	C2	**2,703**	2,603
Provisions	D3	**2,744**	2,706
Total current liabilities		**137,048**	143,099
Total liabilities		**1,680,591**	1,627,499
Total equity and liabilities		**3,074,458**	2,928,337

* Refer to Consolidated Statement of changes in equity on page 92.

The financial statements were authorised for issue by the Board of Directors on 24 July 2018 and were signed on its behalf by:

Sara Venning
Chief Executive
24 July 2018

The Notes on pages 98 to 152 form part of these financial statements.

Company statement of financial position

	Note	At 31 March 2018 £000	At 31 March 2017 £000
Assets			
Property, plant and equipment	A1	**2,961,310**	2,848,193
Investment properties	A3	**6,447**	6,264
Intangible assets	A4	**30,374**	32,778
Investments	A5	**-**	-
Other investments	A6	**28**	41
Total non-current assets		**2,998,159**	2,887,276
Inventories	A7	**2,470**	2,353
Trade and other receivables	C4	**54,150**	23,076
Unbilled revenue		**11,469**	9,852
Prepayments		**1,430**	1,368
Cash and cash equivalents	A8	**3,897**	3,622
Assets classified as held for sale	A9	**130**	790
Total current assets		**73,546**	41,061
Total assets		**3,071,705**	2,928,337
Equity			
Share capital	B3	**500,000**	500,000
Statutory distributable reserve*		**171,690**	171,690
Retained earnings*		**731,183**	629,198
Available for sale reserve*		**(63)**	(50)
Total equity attributable to owner of the Company		**1,402,810**	1,300,838
Liabilities			
Loans and borrowings	B1	**1,280,564**	1,217,270
Other payables	D2	**2,008**	1,303
Deferred income	C2	**6,718**	5,906
Provisions	D3	**2,705**	2,891
Deferred tax liabilities	F1	**217,767**	191,046
Employee benefit	E2	**22,789**	65,984
Total non-current liabilities		**1,532,551**	1,484,400
Loans and borrowings	B1	**5,706**	4,843
Trade payables	D2	**111,615**	121,003
Other payables	D2	**13,576**	11,944
Deferred income	C2	**2,703**	2,603
Provisions	D3	**2,744**	2,706
Total current liabilities		**136,344**	143,099
Total liabilities		**1,668,895**	1,627,499
Total equity and liabilities		**3,071,705**	2,928,337

* Refer to Company Statement of changes in equity on page 94.

The financial statements were authorised for issue by the Board of Directors on 24 July 2018 and were signed on its behalf by:

Sara Venning
Chief Executive
24 July 2018

The Notes on pages 98 to 152 form part of these financial statements.

Consolidated statement of comprehensive income

	Note	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Revenue	C1	**431,772**	**422,412**
Other income	C3	**1,394**	1,016
Operating expenses	D1	**(276,218)**	(256,772)
Research and development expenses		**(312)**	(264)
Results from operating activities		**156,636**	166,392
Finance income	B2	**1,121**	70
Finance costs	B2	**(63,279)**	(63,550)
Net finance costs		**(62,158)**	(63,480)
Profit before income tax		**94,478**	102,912
Income tax expense	F1	**(18,092)**	(6,600)
Profit for the year		**76,386**	96,312
Other comprehensive income			
Items that will never be reclassified to profit or loss: Defined benefit plan actuarial gains/(losses)	F1	**41,180**	(46,621)
Items that are or may be reclassified to profit or loss: Available for sale shares - fair value (loss)/gain	F1	**(13)**	14
Other comprehensive income for the period, net of income tax		**41,167**	(46,607)
Total comprehensive income for the period		**117,553**	49,705
Profit attributable to:			
Owner of the Company		76,386	96,312
Total comprehensive income attributable to:			
Owner of the Company		117,553	49,705

All profits relate to continuing operations.

The Notes on pages 98 to 152 form part of these financial statements.

Consolidated statement of changes in equity

	Attributable to the owner of the Group					
	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Available for sale £000	Total equity £000
Balance at 1 April 2017	B3	500,000	171,690	629,198	(50)	1,300,838
Total comprehensive income for the period						
Profit for the year		-	-	76,386	-	76,386
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial gains	E2	-	-	49,614	-	49,614
Deferred tax arising on gains in defined benefit plan	F1	-	-	(8,434)	-	(8,434)
Items that are or may be reclassified to profit or loss:						
Available for sale shares - fair value loss		-	-	-	(13)	(13)
Total other comprehensive income		-	-	41,180	(13)	41,167
Total comprehensive income for the period		-	-	117,566	(13)	117,553
Transactions with owner, recognised directly in equity						
Distributions to owner of the Company						
Dividends to owner of the Company	B3	-	-	(24,524)	-	(24,524)
Balance at 31 March 2018		500,000	171,690	722,240	(63)	1,393,867
Dividends per share (GBP)						0.05

The Notes on pages 98 to 152 form part of these financial statements.

Consolidated statement of changes in equity continued

	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Available for sale £000	Total equity £000
	Attributable to the owner of the Group					
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 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 98 to 152 form part of these financial statements.

Company statement of changes in equity

	Attributable to the owner of the Company					
	Note	**Share capital £000**	**Statutory distributable reserve £000**	**Retained earnings £000**	**Available for sale £000**	**Total equity £000**
Balance at 1 April 2017	B3	500,000	171,690	629,198	(50)	1,300,838
Total comprehensive income for the period						
Profit for the year		-	-	85,329	-	85,329
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial gains	E2	-	-	49,614	-	49,614
Deferred tax arising on gains in defined benefit plan	F1	-	-	(8,434)	-	(8,434)
Items that are or may be reclassified to profit or loss:						
Available for sale shares - fair value loss		-	-	-	(13)	(13)
Total other comprehensive income		-	-	41,180	(13)	41,167
Total comprehensive income for the period		-	-	126,509	(13)	126,496
Transactions with owner, recognised directly in equity						
Distributions to owner of the Company						
Dividends to owner of Company	B3	-	-	(24,524)	-	(24,524)
Balance at 31 March 2018		500,000	171,690	731,183	(63)	1,402,810
Dividends per share (GBP)						0.05

The Notes on pages 98 to 152 form part of these financial statements.

Company statement of changes in equity continued

	Attributable to the owner of the Company					
	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	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 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 98 to 152 form part of these financial statements.

Consolidated statement of cash flows

	Note	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Cash flows from operating activities			
Profit before tax		**94,478**	102,912
Adjustments for:			
Depreciation	A1, A3	**73,507**	71,758
Amortisation of intangible assets	A4	**7,030**	7,151
Impairment losses on assets classified as held for resale		**-**	-
Notional income relating to adopted assets	C1	**(31,145)**	(32,071)
Gain on sale of property, plant and equipment	C3	**(1,035)**	(657)
Interest expense (net)	B2	**62,158**	63,480
Non-cash differences taken to profit or loss		**(312)**	-
		204,681	212,573
Changes in:			
- inventories		**(167)**	20
- trade and other receivables		**(69)**	(1,630)
- unbilled revenue		**(1,704)**	593
- trade and other payables		**(3,361)**	(845)
- provisions		**(149)**	(211)
- excess of pension charge over cash pension contributions		**6,152**	2,041
Cash generated from operating activities		**205,383**	212,541
Cash flows from investing activities			
Interest received		**61**	74
Proceeds from sale of property, plant and equipment		**1,536**	1,096
Acquisition of property, plant and equipment, and intangible assets		**(160,354)**	(148,999)
Acquisition of subsidiaries, net of cash acquired	A5	**(9,662)**	-
Grants received		**73**	-
Net cash used in investing activities		**(168,346)**	(147,829)
Cash flows from financing activities			
Proceeds from borrowings		**69,000**	30,000
Payment of finance lease liabilities		**(4,050)**	(4,126)
Payment of bank loans		**(1,612)**	-
Interest paid		**(66,803)**	(66,700)
Dividends paid	B3	**(24,524)**	(23,262)
Tax paid		**(237)**	(171)
Net cash from financing activities		**(28,226)**	(64,259)
Net increase in cash and cash equivalents		**8,811**	453
Cash and cash equivalents at 1 April	A8	**3,622**	3,169
Cash and cash equivalents at 31 March	**A8**	**12,433**	3,622

The Notes on pages 98 to 152 form part of these financial statements.

Company statement of cash flows

	Note	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Cash flows from operating activities			
Profit before tax		**103,437**	102,912
Adjustments for:			
Depreciation	A1, A3	**73,460**	71,758
Amortisation of intangible assets	A4	**7,030**	7,151
Impairment losses on assets classified as held for resale		**-**	-
Notional income relating to adopted assets	C1	**(31,145)**	(32,071)
Gain on sale of property, plant and equipment	C3	**(1,035)**	(657)
Interest expense (net)	B2	**63,818**	63,480
		215,565	212,573
Changes in:			
- inventories		**(121)**	20
- trade and other receivables		**(775)**	(1,630)
- unbilled revenue		**(1,678)**	593
- trade and other payables		**(3,598)**	(845)
- provisions		**(148)**	(211)
- excess of pension charge over cash pension contributions		**6,152**	2,041
Cash generated from operating activities		**215,397**	212,541
Cash flows from investing activities			
Interest received		**103**	74
Proceeds from sale of property, plant and equipment		**1,536**	1,096
Acquisition of property, plant and equipment, and intangible assets		**(160,235)**	(148,999)
Acquisition of subsidiaries	A5	**(29,126)**	-
Grants received		**73**	-
Net cash used in investing activities		**(187,649)**	(147,829)
Cash flows from financing activities			
Proceeds from borrowings		**69,000**	30,000
Payment of finance lease liabilities		**(4,843)**	(4,126)
Interest paid		**(66,869)**	(66,700)
Dividends paid	B3	**(24,524)**	(23,262)
Tax paid		**(237)**	(171)
Net cash from financing activities		**(27,473)**	(64,259)
Net increase in cash and cash equivalents		**275**	453
Cash and cash equivalents at 1 April	A8	**3,622**	3,169
Cash and cash equivalents at 31 March	**A8**	**3,897**	3,622

The Notes on pages 98 to 152 form part of these financial statements.

Notes to the Statutory accounts

1 Key accounting policies

(a) Reporting entity

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

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

(b) Basis of preparation

Statement of compliance

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

(c) Basis of measurement

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

The consolidated financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2018. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the parent Company operates as described below.

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

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

As required by the Licence, NI Water Limited 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 Limited to meet Departmental targets contained within the Social and Environmental Guidance and requires NI Water Limited to deliver enhanced regulatory outputs, continued investment, improvement in service and efficiencies.

On 10 February 2015, NI Water Limited 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.

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

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

- based on reasonable forward planning scenarios for capital investment, NI Water Limited should have sufficient capital budget to deliver all of its defined PC15 outputs within the PC15 6 year period;

1 Key accounting policies continued

- but it is unlikely to allow investment in additional necessary quality improvements, which may need to be deferred to the PC21 period;
- the reduction in expenditure in line with inflation is being passed on to consumers through RPI+K price cap regulation and the PC15 outputs are being delivered; and
- PC15 Final Determination targets remain valid and should be used for planning and performance reporting for the rest of the PC15 period.

As a result, adjusted outputs were not formally agreed with the Utility Regulator for 2017/18.

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

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

On the basis of the ongoing discussions, 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

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

(e) Changes in accounting policies

There were no additional standards, amendments and interpretations that had a material impact on the Group's financial statements during the year.

(f) Critical accounting estimates and judgements

The preparation of the consolidated financial statements, in conformity with IFRSs, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an 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(r) and Note B4 – measurement of fair values; and
- Note F1 – deferred taxation.

Significant accounting policies are included at Note G1.

Key themes for NI Water

A The assets we use

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

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

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

A1 Property, plant and equipment

	Company						Group	
	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**	Vehicle plant and equipment £000	**Total £000**
Cost or deemed cost								
Balance at 1 April 2016	75,192	1,748,747	1,181,782	15,050	115,009	**3,135,780**	-	**3,135,780**
Adjustment for previous impairment**	2,989	-	-	-	-	**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**	-	**3,138,769**
Additions	-	3,049	-	-	150,697	**153,746**	-	**153,746**
Customer contributions	1	31,585	485	-	-	**32,071**	-	**32,071**
Disposals	(59)	(979)	(219)	(728)	-	**(1,985)**	-	**(1,985)**
Transfers	686	33,463	73,433	1,664	(109,246)	**-**	-	**-**
Transfers to investment properties	(612)	-	-	-	-	**(612)**	-	**(612)**
Transfers to assets held for sale	8	-	-	-	-	**8**	-	**8**
Balance at 31 March 2017	**78,205**	**1,815,865**	**1,255,481**	**15,986**	**156,460**	**3,321,997**	**-**	**3,321,997**
Balance at 1 April 2017	78,205	1,815,865	1,255,481	15,986	156,460	**3,321,997**	-	**3,321,997**
Assets acquired***	-	-	-	-	-	**-**	9	**9**
Additions	-	4,101	-	-	151,378	**155,479**	487	**155,966**
Customer contributions	2	30,025	1,118	-	-	**31,145**	-	**31,145**
Disposals	(9)	(1,093)	(112)	(789)	-	**(2,003)**	-	**(2,003)**
Transfers	1,831	31,016	67,663	361	(100,871)	**-**	-	**-**
Transfers to investment properties	(6)	-	-	-	-	**(6)**	-	**(6)**
Transfer from assets held for sale	-	-	-	-	-	-	-	-
Balance at 31 March 2018	**80,023**	**1,879,914**	**1,324,150**	**15,558**	**206,967**	**3,506,612**	**496**	**3,507,108**

* 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.

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

A1 Property, plant and equipment continued

	Company						Group	
	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**	Vehicle plant and equipment £000	**Total £000**
Depreciation and impairment losses								
Balance at 1 April 2016	(5,159)	(108,057)	(277,585)	(10,386)	-	**(401,187)**	-	**(401,187)**
Adjustment for previous impairment**	(2,989)	-	-	-	-	**(2,989)**	-	**(2,989)**
Revised balance at 1 April 2016	(8,148)	(108,057)	(277,585)	(10,386)	-	**(404,176)**	-	**(404,176)**
Depreciation for the year	(1,150)	(16,998)	(52,102)	(1,463)	-	**(71,713)**	-	**(71,713)**
Disposals	53	979	191	717	-	**1,940**	-	**1,940**
Transfer to investment properties	145	-	-	-	-	**145**	-	**145**
Balance at 31 March 2017	**(9,100)**	**(124,076)**	**(329,496)**	**(11,132)**	**-**	**(473,804)**	**-**	**(473,804)**
Balance at 1 April 2017	(9,100)	(124,076)	(329,496)	(11,132)	-	**(473,804)**	-	**(473,804)**
Assets acquired***	-	-	-	-	-	**-**	(1)	**(1)**
Depreciation for the year	(1,137)	(17,554)	(53,168)	(1,594)	-	**(73,453)**	(18)	**(73,471)**
Disposals	7	1,093	73	782	-	**1,955**	-	**1,955**
Transfer to investment properties	-	-	-	-	-	**-**	-	**-**
Balance at 31 March 2018	**(10,230)**	**(140,537)**	**(382,591)**	**(11,944)**	**-**	**(545,302)**	**(19)**	**(545,321)**
Carrying amounts								
At 31 March 2017	69,105	1,691,789	925,985	4,854	156,460	2,848,193	-	2,848,193
At 31 March 2018	**69,793**	**1,739,377**	**941,559**	**3,614**	**206,967**	**2,961,310**	**477**	**2,961,787**

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

All surplus land and buildings have been transferred to investment properties and non-current assets held for sale (see Note A3 and A9).

Borrowing costs capitalisation

Included in the total net book value of property, plant and machinery is £5,361k (2017: £3,516k) of borrowing costs capitalised during the period using a capitalisation rate of 4.05% (2017: 4.24%) relating to the parent Company.

Leased assets (Group and Company)

	At 31 March 2018 £000	At 31 March 2017 £000
The net book value of land and buildings comprises:		
Freehold	**68,737**	68,046
Leasehold - long and short term	**1,056**	1,059
Total	**69,793**	69,105

	At 31 March 2018 £000	At 31 March 2017 £000
Land within this total is not depreciated and is shown as follows:		
Freehold	**17,127**	17,131

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:

	Group and Company	
	At 31 March 2018 £000	At 31 March 2017 £000
Contracted	**79,461**	63,981

In addition to the above, at the end of the financial year the Group and Company had entered into commitments amounting to £506m (2017: £622m). These commitments relate to planned future capital spend. The contracted amount of £79m 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 a 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 2018 is £12.0m and £5.56m respectively (2017: £12.0m and £5.91m). The amount included in PPP Creditors at 31 March 2018 is £3.02m (2017: £3.38m).

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 2018 is £144.99m and £106.78m respectively (2017: £142.08m and £108.03m). The amount included in PPP Creditors at 31 March 2018 is £112.69m (2017: £114.49m).

Alpha (Company only)

A contract with Dalriada Water Limited was signed on 30 May 2006 for the provision of bulk drinking water supplies. This has a capital cost in the region of £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 2018 is £120.36m and £87.24m respectively (2017: £119.24m and £89.79m). The amount included in PPP Creditors at 31 March 2018 is £88.0m (2017: £90.38m). With the acquisition by the Group of Dalriada Water Limited during 2017/18 (see Note A5) the PPP creditor at group level is eliminated on consolidation.

A2 Service concession agreements continued

Significant terms

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

Nature and extent of rights and obligations

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

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

A3 Investment properties

	Group	Company
	Total £000	Total £000
Cost or deemed cost		
Balance at 1 April 2016	**18,634**	**18,634**
Reclassification from non-current assets held for sale	**612**	**612**
Disposals	**(44)**	**(44)**
Transfers to non-current assets held for sale	**(443)**	**(443)**
Balance at 31 March 2017	**18,759**	**18,759**
Balance at 1 April 2017	**18,759**	**18,759**
Reclassification from property, plant and equipment	**6**	**6**
Disposals	**-**	**-**
Transfers to non-current assets held for sale	**(1)**	**(1)**
Transfers from non-current assets held for sale	**307**	**307**
Balance at 31 March 2018	**19,071**	**19,071**
Accumulated depreciation and impairment losses		
Balance at 1 April 2016	**(12,486)**	**(12,486)**
Disposals	**2**	**2**
Impairment loss	**-**	**-**
Reclassification to non-current assets held for sale	**140**	**140**
Reclassification from non-current assets held for sale	**(145)**	**(145)**
Depreciation for the year	**(6)**	**(6)**
Balance at 31 March 2017	**(12,495)**	**(12,495)**
Balance at 1 April 2017	**(12,495)**	**(12,495)**
Disposals	**-**	**-**
Impairment loss	**-**	**-**
Reclassification to non-current assets held for sale	**5**	**5**
Reclassification from property, plant and equipment	**(98)**	**(98)**
Depreciation for the year	**(36)**	**(36)**
Balance at 31 March 2018	**(12,624)**	**(12,624)**
Carrying amounts		
At 31 March 2017	**6,264**	**6,264**
At 31 March 2018	**6,447**	**6,447**

Impairment loss

During the year ended 31 March 2018, the Group and Company did not recognise any impairment loss for investment properties (2017: £Nil)

A4 Intangible assets and goodwill

	Company			Group	
	Computer programs and software £000	Assets in the course of construction £000	**Total £000**	Goodwill £000	**Total £000**
Cost					
Balance at 1 April 2016	73,532	825	**74,357**	-	**74,357**
Additions	-	4,458	**4,458**	-	**4,458**
Transfers	3,457	(3,457)	**-**	-	**-**
Balance at 31 March 2017	**76,989**	**1,826**	**78,815**	**-**	**78,815**
Balance at 1 April 2017	76,989	1,826	**78,815**	-	**78,815**
Goodwill arising on acquisitions	-	-	**-**	23,935	**23,935**
Additions	-	4,626	**4,626**	-	**4,626**
Transfers	2,894	(2,894)	**-**	-	**-**
Balance at 31 March 2018	**79,883**	**3,558**	**83,441**	**23,935**	**107,376**
Amortisation and impairment losses					
Balance at 1 April 2016	(38,886)	-	**(38,886)**	-	**(38,886)**
Amortisation for the year	(7,151)	-	**(7,151)**	-	**(7,151)**
Balance at 31 March 2017	**(46,037)**	**-**	**(46,037)**	**-**	**(46,037)**
Balance at 1 April 2017	(46,037)	-	**(46,037)**	-	**(46,037)**
Amortisation for the year	(7,030)	-	**(7,030)**	-	**(7,030)**
Balance at 31 March 2018	**(53,067)**	**-**	**(53,067)**	**-**	**(53,067)**
Carrying amounts					
At 31 March 2017	30,952	1,826	**32,778**	-	**32,778**
At 31 March 2018	**26,816**	**3,558**	**30,374**	**23,935**	**54,309**

(a) Impairment testing for goodwill

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

The key assumption used in the estimation of the recoverable amount are set out below. The values assigned to the key assumption represents management's assessment of the performance of the concession arrangement and have been based on expected revenue and cost over the life of the PPP contract.

	2018
Discount rate	7.5%

The discount rate was a post-tax measure estimated based on the historical industry average weighted-average cost of capital, at a market interest rate of 7.5%.

The cash flow projections included specific estimates for the life of the finite contract.

Goodwill arising on acquisitions will be reviewed for impairment at each year end and will be written down to nil by the end of the PPP contract on the basis of the forecasted discounted profitability of the acquired companies. At 31 March 2018 no impairment was recognized due to the proximity of the acquisition to year end and therefore the impairment would be immaterial.

A4 Intangible assets and goodwill continued

Assets in the course of construction (AICC)

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

£312k (2017: £264k) of research and development expenditure was recognised as an expense during the period. The following intangible assets are deemed to be material to the Group and Company's financial statements:

Description	Carrying amount	Remaining amortisation period
MC2 implementation (mobile work management)	£2.4m	5
Water mains studies	£2.2m	5
CBC implementation (customer billing)	£2.1m	4
Costing solution development	£0.6m	3
Asset data acquisition and improvement	£1.7m	6
NIAMP 4 (asset management plan)	£0.6m	7
Metering related software	£0.9m	8
Drainage area plans	£0.6m	7
Goodwill arising on acquisitions	£23.94m	14

The contractual commitments for the acquisition of intangible assets as at 31 March 2018 are £3,819k (2017: £3,495k).

A5 Investments

	Company	
	At 31 March 2018 £	At 31 March 2017 £
Investment in subsidiaries	**1**	-
Total	**1**	-

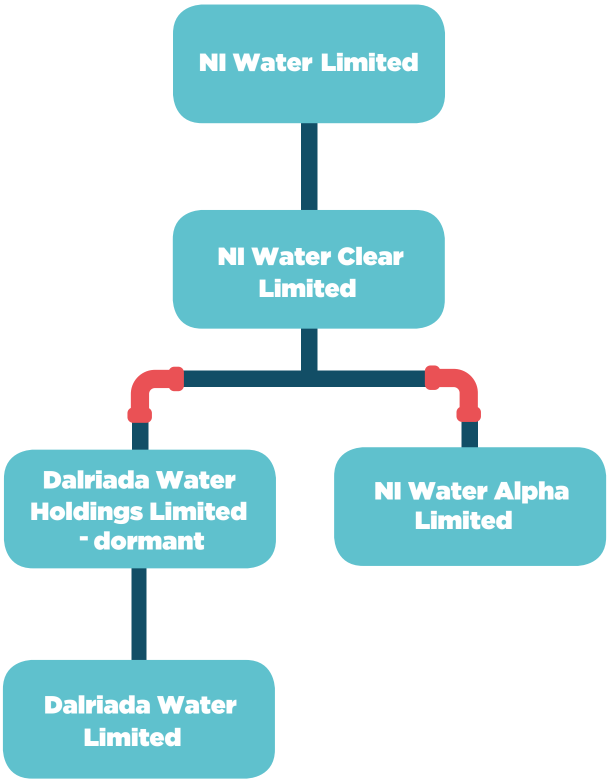
Principal subsidiary undertakings	Country of incorporation	Registered office address	% Ordinary shares and votes held	Principal activity
NI Water Clear Limited	Northern Ireland	Westland House, 40 Old Westland Road, Belfast BT14 6TE	100	Holding company
Dalriada Water Holdings Limited *	Northern Ireland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

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

A5 Investments continued

List of subsidiaries

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



Acquisition of subsidiary

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

(a) Consideration transferred

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

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

(i) Settlement of pre-existing relationship

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

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

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

A5 Investments continued

b) Acquisition-related costs

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

c) Identifiable assets acquired and liabilities assumed

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

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

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

(i) Measurement of fair values

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

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

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

d) Goodwill

Goodwill arising from the acquisition has been recognised as follows:

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

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

A6 Other investments

	Group		Company	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Non-current investments				
15,278 ordinary 'A' shares	**28**	41	**28**	41
Total	**28**	41	**28**	41

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 2018 was £1.85 per ordinary share (2017: £2.71). The fair value adjustment of £13k has been debited to Other Comprehensive Income and has been debited to an Available for Sale reserve.

A7 Inventories

	Group		Company	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Raw materials and consumables	**2,673**	2,353	**2,470**	2,353
Work in progress	**-**	-	**-**	-
Total	**2,673**	2,353	**2,470**	2,353

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

During the year raw materials, consumables and work in progress issued from stores and recognised within operating costs for the Group and Company amounted to £674k (2017: £539k) (Company: £628k, 2017: £539k). The inventory held in stores is a component of total inventories. In the year ending 31 March 2018 the write-down of inventories to net realisable value amounted to £60k (2017: £60k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2017: £60k). The write-downs are included in operating expenses.

A8 Cash and cash equivalents

	Group		Company	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Bank balances	**10,429**	2,122	**1,893**	2,122
Call deposits	**2,004**	1,500	**2,004**	1,500
Cash and cash equivalents	**12,433**	3,622	**3,897**	3,622

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

A9 Non-current assets held for sale

The Company's Land Management Department is focused on selling the properties no longer required for operational purposes. Efforts to sell the assets have commenced and where the sale is expected by March 2019 these properties have been classified as held for sale in current assets.

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

	Group		Company	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Balance at 1 April	**790**	848	**790**	848
Adjustment for opening balance	**7**	-	**7**	-
Net transfer from investment properties	**(4)**	303	**(4)**	303
Net transfer to investment properties	**(209)**	(8)	**(209)**	(8)
Impairment/Depreciation	**-**	(2)	**-**	(2)
Disposals	**(454)**	(351)	**(454)**	(351)
Balance at 31 March	**130**	790	**130**	790

A gain of £355k (2017: £463k) on disposal of non-current assets held for sale is included within 'Other income' in the SOCI.

B How we are financed

NI Water Limited is funded from a number of sources. This section contains the notes to the SOFP. It sets out the borrowings we receive from our Shareholder, the DfI, which is used to partially finance our capital investment programme. We pay interest on our loans and receive interest on any funds which from time-to-time we have available for short term investments. Our capital and reserves note shows the total equity attributable to the Shareholder including the dividend that is paid. For more information on how we are financed see pages 62 to 69. For further information on the relevant accounting policies applied in this section please see section G1.

B1 Loans and borrowings

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

	Group		Company	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Non-current liabilities				
Capital loan notes	**1,082,560**	1,013,560	**1,082,560**	1,013,560
Bank loans	**83,311**	-	**-**	-
Finance lease liabilities	**112,654**	203,710	**198,004**	203,710
Total	**1,278,525**	1,217,270	**1,280,564**	1,217,270
Current liabilities				
Current portion of bank loans	**4,081**	-	**-**	-
Current portion of finance lease liabilities	**3,056**	4,843	**5,706**	4,843
Total	**7,137**	4,843	**5,706**	4,843

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Group					
			At 31 March 2018		At March 2017	
	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	**99,000**	**99,000**	30,000	30,000
Bank loan – EIB	5.18%	2029	**41,788**	**45,972**	-	-
Bank loan - RBC	LIBOR + margin	2030	**38,984**	**41,420**	-	-
PPP finance lease liabilities – Alpha	5.81%	2031	**-**	**-**	90,378	90,378
PPP finance lease liabilities – Omega	3.67%	2032	**112,692**	**112,692**	114,791	114,791
PPP finance lease liabilities – Kinnegar	3.99%	2024	**3,018**	**3,018**	3,384	3,384
Total			**1,279,042**	**1,285,662**	1,222,113	1,222,113

The secured bank loans are secured over trade receivables within Dalriada Water Limited with a carrying amount of £101,526k.

B1 Loans and borrowings continued

	Company					
			At 31 March 2018		At March 2017	
	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	**99,000**	**99,000**	30,000	30,000
PPP finance lease liabilities – Alpha	5.81%	2031	**88,000**	**88,000**	90,378	90,378
PPP finance lease liabilities – Omega	3.67%	2032	**112,692**	**112,692**	114,791	114,791
PPP finance lease liabilities – Kinnegar	3.99%	2024	**3,018**	**3,018**	3,384	3,384
Total			**1,286,270**	**1,286,270**	1,222,113	1,222,113

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 2018, £69m of loan notes were issued under the £600,000k Fixed Coupon Unsecured loan notes 2034 instrument (2017: £30m). Capital loan notes are issued to DfI and those issued under the £1,280,200k Fixed Coupon Unsecured loan notes instrument are repayable in full in 2027 and those issued under the £600,000k Fixed Coupon Unsecured loan notes instrument are repayable in full in 2034. All loan notes in issue before 31 March 2010 carry a fixed rate of interest of 5.25%. Any loan notes issued after 31 March 2010 carry fixed interest rates of 0.85% above the reference gilt rate as published by the UK HM Government Debt Management Office on the day of issue of the loan note. The gilt rates applying to loan drawdowns subsequent to 31 March 2010 range from 1.56% to 4.42%.

Finance lease liabilities

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

	Group					
	At 31 March 2018			At 31 March 2017		
	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	**15,650**	**12,594**	**3,056**	24,175	19,332	4,843
Between one and five years	**63,652**	**45,450**	**18,202**	100,070	71,180	28,890
More than 5 years	**149,936**	**55,484**	**94,452**	270,224	95,402	174,820
Total	**229,238**	**113,528**	**115,710**	394,469	185,914	208,553

B1 Loans and borrowings continued

	Company					
	At 31 March 2018			At 31 March 2017		
	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	**24,532**	**18,826**	**5,706**	24,175	19,332	4,843
Between one and five years	**101,742**	**68,153**	**33,589**	100,070	71,180	28,890
More than 5 years	**244,018**	**79,603**	**164,415**	270,224	95,402	174,820
Total	**370,292**	**166,582**	**203,710**	394,469	185,914	208,553

B2 Finance income and finance costs

Recognised in profit or loss

	Group	
	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Interest income on bank deposits	**65**	70
Financial liabilities at fair value through profit and loss – net change in fair value	**1,056**	-
Net finance income	**1,121**	70
Financing charges on pension scheme	**(1,600)**	(200)
Interest expense on financial liabilities measured at amortised cost	**(44,678)**	(43,595)
Interest on PPP financing arrangements	**(17,001)**	(19,755)
Finance costs	**(63,279)**	(63,550)
Net finance costs recognised in profit or loss	**(62,158)**	(63,480)

All finance income and finance costs above relate to assets/(liabilities) not at fair value through profit or loss except for financial liabilities held at fair value. Of the above amount £48,365 (2017: £47,086k) was payable by the Company to DfI in relation to loan notes issued (see Note B1 'Loans and borrowings' and Note G4 'Related parties'). Interest of £5,361k was capitalised by the Group in the year (2017: £3,516k).

B3 Capital and reserves

Share capital

	Company	
	Ordinary shares	
	At 31 March 2018 £000	At 31 March 2017 £000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000

Ordinary shares

At 31 March 2018 the authorised share capital of the Company comprised 500 million ordinary shares (2017: 500m) with a par value of £1 each.

B3 Capital and reserves continued

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

Statutory distributable reserve

The statutory distributable reserve was established under enabling legislation.

Dividends

The following dividends were declared and paid by the Company.

	Company	
	Year to 31 March 2018 £000	Year to 31 March 2017 £000
4.90 pence per allotted ordinary share (2017: 4.65 pence)	**24,524**	23,262

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:

	Group			
	Gross	**Impairment**	Gross	Impairment
	At 31 March 2018		At 31 March 2017	
	£000	**£000**	£000	£000
Not past due	**19,857**	**283**	18,490	156
Past due 0-30 days	**2,106**	**56**	1,465	37
Past due 31-60 days	**607**	**31**	520	31
Past due 61-90 days	**255**	**17**	415	29
Past due 91-120 days	**281**	**77**	400	106
Past due 121-150 days	**225**	**111**	448	246
Past due 151-365 days	**791**	**567**	1,137	900
Past due 1-2 years	**786**	**775**	949	930
Past due 2+ years*	**595**	**548**	757	747
Total	**25,503**	**2,465**	24,581	3,182

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

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

B4 Financial instruments continued

Impairment losses

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

	Company			
	Gross	Impairment	Gross	Impairment
	At 31 March 2018		At 31 March 2017	
	£000	£000	£000	£000
Not past due	**19,857**	**283**	18,490	156
Past due 0-30 days	**2,106**	**56**	1,465	37
Past due 31-60 days	**607**	**31**	520	31
Past due 61-90 days	**255**	**17**	415	29
Past due 91-120 days	**281**	**77**	400	106
Past due 121-150 days	**225**	**111**	448	246
Past due 151-365 days	**791**	**567**	1,137	900
Past due 1-2 years	**786**	**775**	949	930
Past due 2+ years*	**686**	**548**	757	747
Total	**25,594**	**2,465**	24,581	3,182

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

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

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

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

	Group	
	At 31 March 2018 £000	Year to 31 March 2017 £000
Not past due	**18,785**	16,687
Past due 0-30 days	**2,150**	1,548
Past due 31-60 days	**572**	465
Past due 61-90 days	**231**	474
Past due 91-120 days	**206**	332
Past due 121-150 days	**166**	382
Past due 151-365 days	**751**	1,278
Past due 1-2 years	**1,061**	891
Past due 2+ years	**1,581**	2,524
Total	**25,503**	24,581

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

B4 Financial instruments continued

	Company	
	At 31 March 2018 £000	Year to 31 March 2017 £000
Not past due	**18,785**	16,687
Past due 0-30 days	**2,150**	1,548
Past due 31-60 days	**572**	465
Past due 61-90 days	**231**	474
Past due 91-120 days	**206**	332
Past due 121-150 days	**166**	382
Past due 151-365 days	**751**	1,278
Past due 1-2 years	**1,061**	891
Past due 2+ years	**1,672**	2,524
Total	**25,594**	24,581

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

	Group and Company	
	At 31 March 2018 £000	At 31 March 2017 £000
Balance at 1 April	**3,182**	3,092
New provisions	**1,627**	2,309
Debt provision utilised	**(415)**	(415)
Provision released unused	**(1,929)**	(1,804)
Balance at 31 March	**2,465**	3,182

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

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

B4 Financial instruments continued

Liquidity risk

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

31 March 2018

	Group						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	1,082,560	(1,553,737)	(25,029)	(24,892)	(50,059)	(149,766)	(1,303,991)
Bank loans	87,392	(80,772)	(2,015)	(2,066)	(9,350)	(16,784)	(50,557)
Finance lease liabilities	115,710	(229,238)	(7,825)	(7,825)	(15,928)	(47,724)	(149,936)
Trade and other payables	136,868	(136,868)	(124,463)	-	-	(2,008)	(10,397)
Total	**1,422,530**	**(2,000,615)**	**(159,332)**	**(34,783)**	**(75,337)**	**(216,282)**	**(1,514,881)**

Derivative financial instrument have been included within Trade and other payables due more than 5 years even though it is related to the secured bank loan to fix the variable interest rate to a fixed interest rate.

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

31 March 2017

	Group						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	1,013,560	(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)	-
Total	**1,356,363**	**(2,024,122)**	**(168,907)**	**(35,830)**	**(72,145)**	**(219,813)**	**(1,527,427)**

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

31 March 2018

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

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

B4 Financial instruments continued

31 March 2017

	Company						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	1,013,560	(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)	-
Total	**1,356,363**	**(2,024,122)**	**(168,907)**	**(35,830)**	**(72,145)**	**(219,813)**	**(1,527,427)**

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

Profile

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

	Group	
	Carrying amount	
	At 31 March 2018 £000	At 31 March 2017 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,244,242)**	(1,222,113)
Total	**(1,244,242)**	(1,222,113)
Variable rate instruments		
Financial assets	**12,433**	3,622
Financial liabilities*	**(41,420)**	-
Total	**(28,987)**	3,622

* Financial liabilities of £41,420k is at variable rate but the Group has entered into a derivative financial instrument contract to fix the interest rate payable.

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

	Company	
	Carrying amount	
	At 31 March 2018 £000	At 31 March 2017 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,286,270)**	(1,222,113)
Total	**(1,286,270)**	(1,222,113)
Variable rate instruments		
Financial assets	**3,897**	3,622
Financial liabilities	**-**	-
Total	**3,897**	3,622

B4 Financial instruments continued

Fair value sensitivity analysis for fixed rate instruments

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

Fair values versus carrying amounts

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

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

B4 Financial instruments continued

	Group				
	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	A8	-	3,622	-	**3,622**
Trade and other receivables	C5	-	11,722	-	**11,722**
Unbilled income		-	9,786	-	**9,786**
Financial assets measured at fair value					
Investment securities - Equity securities	A6	41	-	-	**41**
Total		**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)**
Financial liabilities measured at fair value					
Interest rate swap	D2	-	-	-	**-**
Total		**-**	**-**	**(1,356,363)**	**(1,356,363)**

The carrying amount of all financial assets and liabilities not measured at fair value, with the exception of loans, borrowings and finance lease liabilities, is considered to be a reasonable approximation of fair value. The fair value of loans and borrowings which includes third party borrowings, is £1,359m (2017: £1,218m). Accounting policies 1(c) outlines the background to PC15. The uncertainty in relation to this would normally have an impact on the credit rating of loans and borrowings and the interest rate used to calculate fair values. It has been assumed that no change in the credit risk premium has occurred in relation to the capital loan notes of loans and borrowings because all loans and borrowings are provided by the Shareholder and the Group has no access to external finance markets for existing or future borrowings. Included within the £1,359m fair value of loans and borrowings are £87m in respect of bank loans which were fair valued on acquisition. As the bank loans were fair valued at the point of acquisition, the fair value is equivalent to the carrying amount. Further details on the terms and year end balances can be found in Note B1. The loans and borrowings are categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The derivative financial instrument (interest rate swap) is categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The investment securities are categorised within Level 1 in the fair value hierarchy.

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

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

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

B4 Financial instruments continued

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

	Company				
	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	A8	-	3,622	-	**3,622**
Trade and other receivables	C5	-	11,722	-	**11,722**
Unbilled income		-	9,786	-	**9,786**
Financial assets measured at fair value					
Investment securities - Equity securities	A6	41	-	-	**41**
Total		**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)**
Total		**-**	**-**	**(1,356,363)**	**(1,356,363)**

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 £1,272m (2017: £1,218m). 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

B4 Financial instruments continued

the Company has no access to external finance markets for existing or future borrowings. Further details on the terms and year end balances can be found in Note B1. The loans and borrowings are categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The investment securities are categorised within Level 1 in the fair value hierarchy.

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

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

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

C Revenue and receivables

This section sets out the income which NI Water receives from its customers and the amounts owed to it at year end. In accordance with the policy set by the Northern Ireland Executive the Group and Company does not bill its domestic customers and in lieu receives a subsidy from the DfI. Non domestic customers are charged for our services. In addition we adopt assets (mainly underground sewers) and their value is included as income. For more information on our income see page 65.

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

C1 Revenue

	Group	
	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Customer subsidy provided by DfI	**290,437**	284,367
Customer income	**76,305**	73,831
Road drainage income provided by DfI	**21,047**	20,593
Transfers of assets from customers	**31,145**	32,071
Connection and infrastructure charges	**9,599**	8,275
Other third party contributions	**3,239**	3,275
Total	**431,772**	422,412

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.

	Group		Company	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Government grants	**7,077**	6,265	**7,077**	6,265
Customer billing in advance	**2,344**	2,244	**2,344**	2,244
	9,421	8,509	**9,421**	8,509
Non-current	**6,718**	5,906	**6,718**	5,906
Current	**2,703**	2,603	**2,703**	2,603
Total	**9,421**	8,509	**9,421**	8,509

The Group and Company credited £1,172k (2017: £nil) to capital grants during the year. The balance of grants noted above relates to awards made previously to Water Service. All grants have been recognised as deferred income, and are being amortised over the useful economic life of the related asset. New grants received during the year of £1,160k relates to assets in the course of construction (AICC) and are expected to be amortised over the expected useful economic life of the related assets when the assets are expected to be commissioned from December 2020.

C3 Other income

	Group	
	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Net gain on sale of property, plant and equipment	**1,035**	657
Amortisation of deferred grants and contributions	**359**	359
Total	**1,394**	1,016

C4 Trade and other receivables

	Group		Company	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Trade and other receivables from related parties (see Note G4)	**2,001**	1,909	**2,001**	1,909
Trade and other receivables from subsidiaries	**-**	-	**29,913**	-
Trade receivables	**9,566**	9,813	**9,566**	9,813
Other receivables	**12,163**	11,354	**12,670**	11,354
Total	**23,730**	23,076	**54,150**	23,076
Current	**23,730**	23,076	**54,150**	23,076

At 31 March 2018 other receivables include VAT receivable of £5,021k (2017: £4,828k) for the parent Company.

C5 Exposure to credit risk

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

		Group		Company	
	Note	**At 31 March 2018 £000**	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Trade and other receivables	B4	**11,567**	11,722	**41,480**	11,722
Unbilled income		**11,469**	9,786	**11,469**	9,786
Cash and cash equivalents	A8	**12,433**	3,622	**3,897**	3,622
Total		**35,469**	25,130	**56,846**	25,130

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

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

	Group		Company	
	Carrying amount			
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
End-user customers	**23,036**	21,508	**52,949**	21,508

The maximum exposure to cash and cash equivalents (Note A8) is £12,433k (2017: £3,622k). The majority of this balance relates to monies held at the Company's principal banker, Danske Bank, and monies held at Dalriada Water Limited's principal banker, Natwest Plc.

D Purchases and payables

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

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

D1 Operating expenses

	Group	
	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Depreciation and other amounts written off tangible and intangible assets	**80,537**	78,909
Hire and contracted services	**57,059**	60,966
Staff costs	**63,865**	57,750
Power	**29,912**	27,177
Rates	**26,308**	25,861
Raw materials and consumables	**11,376**	9,082
Sundry operating expenses	**11,367**	9,537
Own work capitalised*	**(14,006)**	(12,510)
Settlement of pre-existing relationship with acquiree**	**9,800**	-
Total operating expenses	**276,218**	256,772

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

Refer to page 107 for expenditure on research and development.

The net increase in inventories for the year was £320k (2017: £21k decrease). Impairment losses above are included within the 'operating expenses' line of the SOCI. The events and circumstances leading to the recognition of the impairment losses in investment properties are outlined in Note A3.

	Group	
	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Impairment loss on investment properties/assets classified as held for sale/property, plant and equipment	**-**	-
Impairment (gain) realised on trade receivables	**-**	(260)
Total	**-**	(260)

	Group	
	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**89**	54
Fees payable to the Company's auditor for other services: Audit of the accounts of subsidiaries	**19**	-
Audit of regulatory financial statements	**10**	14
Other assurance opinions (Group)	**22**	22
Total	**140**	90
Amounts receivable by the auditor in respect of:		
Other services relating to taxation	**-**	-
Accounting and regulatory advice (Group)	**11**	36
Total	**11**	36
Total fees paid to the Group auditor	**151**	126

D2 Trade and other payables

	Group		Company	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Payments received on account	**1,886**	1,945	**1,886**	1,945
Trade payables	**4,547**	5,959	**1,804**	5,959
Taxation and social security	**1,131**	1,095	**1,107**	1,095
Accruals – operating expenditure	**43,136**	46,880	**42,945**	46,880
Accruals – capital expenditure	**58,312**	63,947	**58,312**	63,947
Accruals relating to related parties (see Note G4)	**1,816**	1,177	**1,816**	1,177
Accruals relating to subsidiaries	**-**	-	**3,745**	-
Total	**110,828**	121,003	**111,615**	121,003

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

Other payables

	Group		Company	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Non-current – interest rate swap	**10,397**	-	**-**	-
Non-current – others	**2,007**	1,303	**2,008**	1,303
Current	**13,636**	11,944	**13,576**	11,944
Total	**26,040**	13,247	**15,584**	13,247

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

Exposure to currency risk

The Company is not exposed to any significant currency risks.

D3 Provisions

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

D3 Provisions continued

	Group and Company				
	Public liability claims £000	Employer liability claims £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)**
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**
Total	**1,864**	**577**	**106**	**3,050**	**5,597**

Public and employer liability claims

The public liability and employer liability claims at 31 March 2018 relate to unsettled claims. The public liability claims principally relate to previous operational incidents and contractors' business interruption incidents in prior years. The provisions represent potential liabilities on these claims above the amount of insurance cover in place. Professional advice has been sought on the potential liability for individual claims. Claims submitted against the Group and Company are in excess of the provisions made as management have made best estimates of the required provisions based on past experience of similar claims. Until claims are progressed through the formal claims process some degree of uncertainty will remain as to the amount and timing of any final settlement figure. The employer liability claims principally relate to incidents incurred by employees on Group and Company premises. A related contingent liability has also been disclosed at Note D4. The contingent liability for public and employer liability of £0.6m 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 2018 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 £1,891k (2017: £2,050k) and of third party costs in relation to the resolution of contractual disputes of £1,000k (2017: £1,000k).

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

31 March 2018

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

31 March 2017

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

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

D4 Contingencies

The Group and Company is disputing liability in some public and employer liability cases. The estimate of the financial effect is £0.6m (2017: £0.6m). It has been estimated that there is less than a 50% chance of these cases leading to a loss. If such a loss should arise there is no possibility of any reimbursement. In addition, the Group and Company is disputing a number of claims from contractors amounting to £15.329m (2017: £15.874m) which the Directors consider there is less than a 50% likelihood of a loss. A summary of contingent liabilities is set out below:

	Group		Company	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Public and employer liability	**644**	594	**644**	594
Contractor claims	**15,329**	15,874	**15,329**	15,874
Total	**15,973**	16,468	**15,973**	16,468

Debenture to DfI

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

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

Parent company guarantee

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

Contingent assets

The Group and Company receives performance bonds from customers in relation to requisition of water mains and sewerage services. The balance of cash bonds held at 31 March 2018 is £10.9m (2017: £8.4m) and this balance is included in accruals (see Note D2). Bonds are only recognised as a capital contribution if customers are in default of agreed conditions. The Group and Company has also received a number of paper performance bonds issued by various financial institutions. These are not recognised in the financial statements. Value placed on paper bonds held at 31 March 2018 is £23.7m (2017: £21.5m). 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:

	Group		Company	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Less than one year	**238**	243	**238**	243
Between one and five years	**952**	750	**952**	750
More than 5 years	**-**	-	**-**	-
Total	**1,190**	993	**1,190**	993

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

During the year ended 31 March 2018 an amount of £259k was recognised as an expense in profit or loss in respect of operating leases (2017: £337k).

E Our employees

This section sets out information about employee numbers and costs and then provides information on the Group and Company's main pension scheme. The analysis provided in the pension notes is based on IAS 19 estimate of the scheme's assets and liabilities as at 31 March 2018. The value shown in the SOFP calculated on IAS 19 Employee Benefits basis is subject to a number of factors. In this section we provide information to explain the following:

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

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

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

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

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

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

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

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

E1 Personnel numbers and expenses

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

	Group		Company	
	No. of employees Year to 31 March 2018	No. of employees Year to 31 March 2017	**No. of employees Year to 31 March 2018**	No. of employees Year to 31 March 2017
Directors	**13**	12	**13**	12
Non-industrial staff	**825**	773	**794**	773
Industrial staff	**464**	470	**464**	470
Total staff	**1,302**	1,255	**1,271**	1,255

The gender of persons employed by the Group (including Directors) during the year ended 31 December 2017, analysed by category, was as follows*:

	Group					
	No. of employees Year to 31 December 2017			No. of employees Year to 31 December 2016		
	Male	**Female**	**Total**	Male	Female	Total
Directors and senior managers	**52**	**16**	**68**	53	15	68
Non-industrial staff	**540**	**238**	**778**	496	228	724
Industrial staff	**465**	**2**	**467**	468	2	470
Total staff	**1,057**	**256**	**1,313**	1,017	245	1,262

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

E1 Personnel numbers and expenses continued

The gender of persons employed by the Company (including Directors) during the year ended 31 December 2017, analysed by category, was as follows*:

	Company					
	No. of employees Year to 31 December 2017			No. of employees Year to 31 December 2016		
	Male	**Female**	**Total**	Male	Female	Total
Directors and senior managers	**52**	**16**	**68**	53	15	68
Non-industrial staff	**511**	**236**	**747**	496	228	724
Industrial staff	**465**	**2**	**467**	468	2	470
Total staff	**1,028**	**254**	**1,282**	1,017	245	1,262

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

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

	Group	
	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Wages and salaries	**43,074**	41,078
Social security costs	**4,542**	4,409
Other pension costs	**16,249**	12,263
Total payroll costs	**63,865**	57,750

An amount of £11,949k (2017: £10,747k) of the above payroll costs has been capitalised as it relates to work carried out by the Group that adds to the value of property, plant and equipment and intangible assets.

E1a Key management personnel short term employee benefit

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

In summary, key management personnel compensation comprised:

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Short term employee benefits	**862**	815
Post-employment benefits	**179**	168
Total benefits	**1,041**	983

The emoluments of the highest paid Director were £153k (2017: £151k).

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.

E1 Personnel numbers and expenses continued

Exit package cost band £000	Number of compulsory redundancies 31 March 2018	Number of other departures agreed 31 March 2018	Total number of exit packages by cost band 31 March 2018	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
0 - 10	-	-	-	-	1	1
10 - 25	-	6	6	-	4	4
25 - 50	-	1	1	-	4	4
50 - 100	-	3	3	-	1	1
Above 100	-	1	1	-	-	-
Total number	-	11	11	-	10	10
Total cost (£'000)	-	643	643	-	280	280

E1c Off-payroll engagements

In accordance with DoF disclosure guidance - FD (DoF) 03/18, the Company had the following 'off-payroll' engagements at a cost of over £58,200 per annum and engaged for over six months. None of the subsidiaries in the Group had off-payroll engagements as defined by the DoF guidance in the year.

	Year to 31 March 2018 number
Number of off-payroll engagements as at 1 April 2017	**4**
Those caught by IR35: Number engaged directly (via Personal Service Company (PSC) contracted to the Company) and are on the Company's payroll	**2**
Number of engagements which have come onto the payroll	**(4)**
Number of engagements which have come to an end	**(2)**
Number of off-payroll engagements as at 31 March 2018	**-**

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 2018 £000	Total year to 31 March 2017 £000
Service cost		
Current service costs (operating costs - staff costs)	**13,500**	9,704
Past service costs (operating costs - staff costs)	**1,500**	1,217
Total service cost	**15,000**	10,921
Net interest cost:		
Interest expense	**7,600**	8,026
Interest income	**(6,000)**	(7,800)
Net interest cost	**1,600**	226
Administration expenses and taxes	**1,000**	1,352
Defined benefit cost included in profit	**17,600**	12,499

E2 Employee benefits continued

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 2018 £000	Total year to 31 March 2017 £000
Opening defined benefit liability	65,984	7,171
Defined benefit cost included in profit	17,600	12,499
Total measurements included in Other Comprehensive Income	(49,614)	56,179
Cash flows – employer contributions	(11,181)	(9,865)
Closing defined benefit liability	22,789	65,984
Actual return on plan assets	7,880	28,869

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

	Total year to 31 March 2018 £000	Total year to 31 March 2017 £000
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	(22,382)	-
Effect of changes in financial assumptions	(10,113)	77,248
Effect of experience adjustments	(15,239)	-
Return on plan assets excluding interest income	(1,880)	(21,069)
Total remeasurements included in Other Comprehensive Income	(49,614)	56,179

Significant assumptions used in this disclosure

Weighted-average assumptions to determine benefit obligation

	Conditions at 31 March 2018	Conditions at 31 March 2017
Rate of increase in salaries	2.00% for 5 yrs., 3.00% thereafter	2.10% for 3 yrs., 3.10% thereafter
Rate of increase in pensions in payment and deferred pensions	3.05%	3.10%
Discount rate	2.65%	2.60%
Inflation assumption - RPI	3.00%	3.10%
Inflation assumption - CPI	2.00%	2.10%

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

F Taxation

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

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

F1 Taxation

Group Income tax expense

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Tax recognised in profit or loss current tax expense		
Current year	**182**	(187)
Adjustment for prior years	**(5)**	17
Total	**177**	(170)
Deferred tax		
Origination of of temporary differences	**(20,109)**	(20,404)
Adjustment to prior years	**(188)**	(10)
Reduction in tax rate (20% to 18%) (2015: no rate change)	**2,028**	13,984
Total	**(18,269)**	(6,430)
Total income tax (expense)/credit	**(18,092)**	(6,600)

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

	Group					
	Year to 31 March 2018			Year to 31 March 2017		
	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)	**49,614**	**(8,434)**	**41,180**	(56,179)	9,558	(46,621)
Shares not held for trading – revaluation (loss)/ gain	**(13)**	**-**	**(13)**	14	-	14
Total	**49,601**	**(8,434)**	**41,167**	(56,165)	9,558	(46,607)

F1 Taxation continued

Reconciliation of effective tax rate

	Group			
	%	Year to 31 March 2018 £000	%	Year to 31 March 2017 £000
Profit for the year	**-**	**76,386**	-	96,312
Total income tax expense/(credit)	**-**	**18,092**	-	6,600
Profit before income tax		**94,478**		102,912
Income tax using the Company's domestic tax rate	**19.00**	**17,950**	20.00	20,582
Reduction in tax rate	**(2.14)**	**(2,028)**	(13.59)	(13,984)
Non-deductible expenses	**0.18**	**176**	0.13	134
Other timing differences	**0.06**	**(60)**	(0.12)	(125)
Adjustment to prior years	**0.20**	**192**	(0.01)	(7)
Settlement of pre-existing relationship	**1.99**	**1,862**	-	-
Total	**-**	**18,092**	-	6,600

Factors affecting future tax charge

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

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

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

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

F1 Taxation continued

Deferred tax assets and liabilities

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

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Group					
	Assets		Liabilities		Net	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Property, plant and equipment	**-**	-	**176,292**	160,134	**176,292**	160,134
Transfers of assets from customers*	**-**	-	**66,147**	61,310	**66,147**	61,310
Intangible assets	**(1,595)**	(456)	**-**	-	**(1,595)**	(456)
Employee benefits	**(3,877)**	(11,217)	**-**	-	**(3,877)**	(11,217)
Provisions	**(519)**	(753)	**-**	-	**(519)**	(753)
Tax losses carried forward	**(13,154)**	(17,972)	**-**	-	**(13,154)**	(17,972)
Fair value of adjustment to senior debt	**(1,125)**	-	**-**	-	**(1,125)**	-
Financial instruments	**(1,767)**	-	**-**	-	**(1,767)**	-
Net tax (assets)/ liabilities	**(22,037)**	(30,398)	**242,439**	221,444	**220,402**	191,046

	Company					
	Assets		Liabilities		Net	
	At 31 March 2018 £000	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000	**At 31 March 2018 £000**	At 31 March 2017 £000
Property, plant and equipment	-	-	**168,860**	160,134	**168,860**	160,134
Transfers of assets from customers*	-	-	**66,147**	61,310	**66,147**	61,310
Intangible assets	**(1,595)**	(456)	**-**	-	**(1,595)**	(456)
Employee benefits	**(3,874)**	(11,217)	**-**	-	**(3,874)**	(11,217)
Provisions	**(519)**	(753)	**-**	-	**(519)**	(753)
Tax losses carried forward	**(11,252)**	(17,972)	**-**	-	**(11,252)**	(17,972)
Net tax (assets)/ liabilities	**(17,240)**	(30,398)	**235,007**	221,444	**217,767**	191,046

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

F1 Taxation continued

Movement in deferred tax balance during the year

	Group					
	Balance at 31 March 2017 £000	Acquisition £000	Recognised in profit £000	Recognised in other comprehensive income £000	Reclassification £000	Balance at 31 March 2018 £000
Property, plant and equipment	160,134	7,545	10,563	-	(1,950)	**176,292**
Transfers of assets from customers*	61,310	-	4,837	-	-	**66,147**
Intangible assets	(456)	-	(1,139)	-	-	**(1,595)**
Employee benefits	(11,217)	(2)	(1,092)	8,434	-	**(3,877)**
Provisions	(753)	-	234	-	-	**(519)**
Tax losses carried forward	(17,972)	(1,818)	4,686	-	1,950	**(13,154)**
Fair value of adjustment to senior debt	-	(1,125)	-	-	-	**(1,125)**
Financial instruments	-	(1,947)	180	-	-	**(1,767)**
Total	**191,046**	**2,653**	**18,269**	**8,434**	**-**	**220,402**

	Company				
	Balance at 31 March 2017 £000	Recognised in profit £000	Recognised in other comprehensive income £000	Reclassification £000	Balance at 31 March 2018 £000
Property, plant and equipment	160,134	10,676	(1,950)	-	**168,860**
Transfers of assets from customers*	61,310	4,837	-	-	**66,147**
Intangible assets	(456)	(1,139)	-	-	**(1,595)**
Employee benefits	(11,217)	(1,092)	-	8,434	**(3,875)**
Provisions	(753)	234	-	-	**(519)**
Tax losses carried forward	(17,972)	4,771	1,950	-	**(11,251)**
Total	**191,046**	**18,287**	**-**	**8,434**	**217,767**

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

Uncertainty over income tax treatments

Dalriada Water Limited has moved to a financial asset basis of accounting for its PFI contract with NI Water Limited. The tax impact has been calculated on the basis that the Company will continue to be entitled to capital allowances. Confirmation of this entitlement is being obtained from HMRC.

G Supplementary notes to the accounts

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

G1 Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

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

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

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

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

(b) Financial instruments

(i) Non-derivative financial assets

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

G1 Significant accounting policies continued

Receivables

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

Cash and cash equivalents

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

Other investments

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

(ii) Non-derivative financial liabilities

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

The Group and Company has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

(iii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of certain items of property, plant and equipment was determined by reference to a previous UK GAAP revaluation. The Group and Company elected to apply the optional exemption to use this previous revaluation as deemed cost at 1 April 2009, the date of transition (see Note A1). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located (when there is an obligation to remove the asset), and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

G1 Significant accounting policies continued

(ii) Assets in the course of construction

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

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(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 Group and Company identified the carrying value of these assets as at the inception of the Group and Company and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, have been subject to depreciation over their useful economic lives. All subsequent maintenance expenditure is chargeable directly to the SOCI.

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

The Group and Company adopts infrastructure assets from customers, e.g. water and sewer pipes from property developers, which it must then use either to connect the customers to the network or to provide the customers with on-going access to a supply of services. In some cases, the Group and Company receives cash from customers that must be used only to acquire or construct an infrastructure asset in order to connect the customer to the network or provide the customer with 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 Group and Company will obtain ownership by the end of the lease term. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

The estimated useful lives for the current and comparative periods are as follows:

Asset Type	Asset Life
Infrastructure assets	100 - 150 years
Operational assets	40 - 80 years
Buildings	30 - 60 years
Fixed plant	3 - 40 years
Vehicles, mobile plant and equipment	4 - 10 years
Office equipment	3 - 10 years

(d) 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 (h) for further details).

G1 Significant accounting policies continued

(e) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group and Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009.

Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group and Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Intangible assets in the course of development

Intangible assets in the course of development, e.g. internally generated software, are separately classified within intangible assets, as assets in the course of construction, until the date of commission at which stage they are transferred. Amortisation on these assets is not charged until they are brought into use.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as occurred.

(v) Amortisation

Amortisation is based on the cost of the asset, less its residual value. Amortisation is recognised in the 'operating expenses' line of the SOCI on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

The useful lives are finite and are as follows for the current and comparative periods:

Asset Type	Asset Life
Computer software	3 - 7 years
Capital studies infrastructure	10 years

(f) Leased assets

Leases in terms of which the Group and Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Public Private Partnership (PPP) transactions

Where public service obligations are met in conjunction with other operators through a partnership arrangement the principles of IFRIC 12 are applied. Assets are included within property, plant and equipment and amounts due to PPP partners are included in PPP credits. Assets included in property plant and equipment are depreciated in accordance with normal accounting policies. The present value of the PPP financing is included within loans and borrowings and payments made are split between capital repayments and interest.

(g) 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.

G1 Significant accounting policies continued

(h) 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 Group and Company on terms that the Group and Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy. The bad debt provision is based on applying expected recovery rates, based on actual historical cash collection performance, to an aged debt profile. For other investments (equity shares) any impairment is initially recognised through other comprehensive income and the cumulative loss is reclassified to profit or loss if impairment occurs for a second consecutive year.

(ii) Receivables

The Group and Company considers evidence of impairment for receivables. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group and Company uses historical trends of the probability of default, timing of recoveries, and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(iii) Non-financial assets

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

(i) 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 Group and Company's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to

G1 Significant accounting policies continued

remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial asset, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Group and Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(j) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

The Group and Company operates a defined benefit pension scheme for all employees. The assets of the scheme are held separately from those of the Group and Company. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group and 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 Group and 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 Group and Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Group and Company can no longer withdraw the offer of those benefits and when the Group and 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.

(iv) Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group and 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.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group and 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.

(l) 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.

G1 Significant accounting policies continued

(m) 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 Group and Company receives government assistance, in the form of a customer subsidy, provided by DfI primarily in relation to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The customer subsidy is presented in revenue in the SOCI (see Note C1). A capital subsidy is received from DfI in relation to requisitioning of water and sewerage infrastructure for older properties. Similarly to all capital contributions from customers, and in accordance with IFRIC 18, this is credited directly to revenue within the SOCI (see Note G4 - Related parties).

(n) 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 Group and Company under leases which transfer to the Group and Company substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the SOFP.

(ii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group and 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 Group and Company the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Group and 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 Group and 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 Group and Company's incremental borrowing rate.

(o) 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.

(p) Income tax

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax for the current and prior years is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current and prior years exceeds the amount payable, the excess is recognised as an asset. The benefits relating to a tax loss that can be carried back to recover current tax of a previous year are held as an asset.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group and Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

G1 Significant accounting policies continued

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

For investment property that is measured at depreciated cost, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity in which case the current or deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(q) 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.

(r) 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 Group and 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 Group and Company uses market observable data as far as possible.

G1 Significant accounting policies continued

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group and Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note B4 – financial instruments.

(s) Application of new and revised International Financial Reporting Standards (IFRSs)

At the date of authorisation of these consolidated financial statements, the following standards and amendments have been adopted for the first time, none of which had an impact on the consolidated or company's financial statements:

- Annual Improvements to IFRS Standards 2014-2016 Cycle
- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The accounting policies set out above have, unless otherwise stated, been applied consistently in the consolidated and company financial statements to all periods presented.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2018 and have not been applied in preparing these financial statements.
The standards and interpretations not adopted are outlined below:

	Effective Date – periods beginning on or after*
• IFRS 15 Revenue from contracts with customers including amendments to IFRS 15: Effective date of IFRS 15	1 January 2018
• IFRS 9 Financial Instruments	1 January 2018
• Clarification to IFRS 15 Revenue from Contracts with Customers	1 January 2018
• Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
• IFRS 16: Leases	1 January 2019
• IFRS 17 Insurance Contracts	1 January 2021
• IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
• IFRS 23 Uncertainty over Insurance Tax Treatments	1 January 2019
• Amendments to IFRS 2 Classification and measurement of share based payment transactions	1 January 2018
• Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2018
• Amendments to IAS 40: Transfers of Investment Properties	1 January 2018
• Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
• Amendments to IAS 28 Long term interests in Associates and Joint Ventures	1 January 2019
• Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019

G1 Significant accounting policies continued

With the exception of IFRS 9, IFRS 15 and IFRS 16, the directors do not expect that the adoption of the standards and interpretations listed above will have material impact on the Group and Company financial statements.

IFRS 9 will be effective for the Group starting 1 April 2018 and will replace the current requirements of IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, a new expected loss model for the impairment of financial assets, revisions to the hedge accounting model and amendments to disclosures. The changes are generally to be applied retrospectively. The Group and Company expects limited impact on the financial statements.

IFRS 15 will be effective for the Group and Company starting 1 April 2018. The standard permits a choice of two possible transition methods for the initial application of the requirements of the new standard: (1) retrospectively to each prior reporting period presented in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), or (2) retrospectively with cumulative effect of initially applying the standard recognised on the date of initial application, being 1 April 2018 for the Group and Company (the "cumulative catch-up" approach). The Group and Company will adopt IFRS 15 for the first time in the year ending 31 March 2019 and will adopt the retrospective transition method with the cumulative effect of initially applying the standard reflected as an adjustment to the opening balance of retained earnings as of 1 April 2018.

Accounting for revenue

Revenue earned from contracts with customers will be recognised based on a five-step model which requires the transaction price for each identified contract to be apportioned to separate performance obligations arising under the contract and recognised either when the performance obligation in the contract has been performed (point in time recognition) or over time as control of the performance obligation is transferred to the customer.

IFRS 16 will change lease accounting mainly for lessees, and will replace the existing standard IAS 17. An asset for the right to use the leased item and a liability for future lease payments will be recognised for all leases, subject to limited exemptions for short term leases and low-value lease assets. The costs of leases will be recognised in profit or loss split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the existing accounting for finance lease, but substantively different to the existing accounting treatment for operating leases under which no lease asset or lease liability is recognised and rentals payable.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

G2 Financial risk management

Overview

The Group and 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 Group and Company's exposure to each of the above risks, the Group and Company's objectives, policies and processes for measuring and managing risk and the Group and 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 Group and Company as described below.

Credit risk

Credit risk is the risk of financial loss to the Group and Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group and Company's receivables from customers and investment deposits. Credit control policies and procedures are determined by the Group and Company and applied by a third party collection agent. The Group and 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.

G2 Financial risk management continued

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 Group and Company's revenue is in the form of a customer subsidy provided by DfI. This primarily relates to the deferment of the introduction of domestic charges that were planned for 1 April 2007.

The credit risk in relation to the remaining 33% is mitigated by the credit control policies outlined above. Excluding the Group and 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 Group and Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group and Company's approach to managing liquidity is to ensure, as far as possible, that 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 Group and 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 Group and Company's treasury policies. During the year the Company maintained a £20m working capital facility provided by DfI for the period to 31 March 2018. 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 2018. The Group and 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 investigation in respect of liquidity risk is set out in Note B4.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group and Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest Rate Risk

Interest rates on borrowings at 31 March 2018 were at fixed rates except for the secured bank loan with Royal Bank of Canada which is not at a fixed rate but 'interest rate swaps' taken out at the start of the loan fixes it to a fixed rate. The Group and Company has a committed borrowing facility available but unused at the year end on which interest is charged at floating rates based on LIBOR plus a margin as set out above. Interest rates on fixed term deposits are fixed for the period of investment. The average period of deposit is less than one month. The Group and Company also maintains instant access investment accounts on which interest is earned at rates based on the Bank of England Base rate.

Foreign Exchange Risk

The Group and Company is not exposed to significant foreign exchange transactions. The Group and 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 53 to 61, 117 and 125.

G3 Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit pension scheme

The Company operates a defined benefit pension scheme, the Northern Ireland Water Limited Pension Scheme (NIWLPS), which is open to all employees. Members had the option of transferring their pensionable service from the Principal Civil Service Pension Scheme (Northern Ireland) (PCSPS (NI)) and a bulk transfer was paid in respect of liabilities transferred in August 2010. The Scheme has a number of different benefit structures applying to different categories of members. All but one of these are closed to new entrants. For all members employee contributions are being gradually increased, from an average level of a little over 2% of pensionable pay at present, and are expected to average about 4.5% of pensionable pay from 2017/18 onwards. The 2017/18 pension costs include a past service net credit of approximately £1.5m 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 2017) and has been updated to 31 March 2018 for IAS 19 purposes on an approximate basis.

Assumed life expectancies on retirement at age 60

	31 March 2018				31 March 2017			
	Non-industrial		**Industrial**		Non-industrial		Industrial	
	Male	**Female**	**Male**	**Female**	Male	Female	Male	Female
Retiring today (member aged 60)	**27.0**	**29.0**	**25.3**	**27.3**	28.1	30.3	26.4	28.5
Retiring in 20 years (member age 40)	**29.0**	**31.0**	**27.2**	**29.2**	30.5	32.7	28.7	30.9

The weighted-average target asset allocations were as follows:

	Total scheme assets at 31 March 2018 £000	Total scheme assets at 31 March 2017 £000
Asset category		
a. Equity instruments	**27.5%**	27.5%
b. Debt instruments		
(i) Corporate bonds	**7.5%**	15.0%
(ii) Gilts	**25.0%**	25.0%
c. Property	**-**	10.0%
d. Other	**40.0%**	22.5%
Total	**100.0%**	100.0%

Fair value of plan assets

	Total scheme assets at 31 March 2018 £000	Total scheme assets at 31 March 2017 £000
a. Cash	**3,445**	-
b. Equities	**63,921**	77,372
c. Debt instruments		
(i) Corporate bonds	**13,152**	30,774
(ii) Gilts	**62,950**	66,255
d. Property	**24,705**	22,756
e. Other	**65,230**	42,537
Total market value of assets	**233,403**	239,694

G3 Employee benefits continued

The Scheme's overall allocation to investment in equities is approximately 8% UK and 19% in overseas equities. The investments shown as 'Other' includes Diversified Growth Fund and Secured Finance Fund.

These investments are intended to reduce the reliance on equity markets, diversify the sources of risk to which the fund is exposed and provide exposure to a wide variety of equity, bond, currency, commodity and other alternatives markets.

Defined benefit obligation by participant status

	Total at 31 March 2018 £000	Total at 31 March 2017 £000
Actives	**173,526**	208,380
Vested deferreds	**7,393**	24,523
Retirees	**75,273**	72,775
Total defined benefit obligation	**256,192**	305,678

Change in the fair value of plan assets

	Total year to 31 March 2018 £000	Total year to 31 March 2017 £000
Fair value of plan assets at end of prior year	**239,694**	207,562
Movement in year		
Interest income	**6,000**	7,800
Contributions by plan participants	**1,722**	1,404
Contributions by employer	**11,181**	9,865
Actuarial gain	**1,880**	21,069
Benefits paid	**(26,074)**	(6,551)
Administration expenses paid from plan assets	**(1,000)**	(1,352)
Insurance premiums for risk benefits	**-**	(103)
Total	**233,403**	239,694

Analysis of the present value of the defined benefit obligations

	Total year to 31 March 2018 £000	Total year to 31 March 2017 £000
At the beginning of the year	**305,678**	214,733
Movement in year		
Current service cost	**13,500**	9,704
Interest expense	**7,600**	8,026
Past service costs	**1,500**	1,217
Remeasurements:		
a. Effect of changes in demographic assumptions	**(22,382)**	-
b. Effect of changes in financial assumptions	**(10,113)**	77,248
c. Effect of experience adjustments	**(15,239)**	-
Contributions by plan participants	**1,722**	1,404
Insurance premiums for risk benefits	**-**	(103)
Benefits paid	**(26,074)**	(6,551)
Total	**256,192**	305,678

G3 Employee benefits continued

Amounts recognised in the statement of financial position

	Total year to 31 March 2018 £000	Total year to 31 March 2017 £000
Defined benefit obligation	**(256,192)**	(305,678)
Fair value of plan assets	**233,403**	239,694
Deficit in the scheme – pension liability	**(22,789)**	(65,984)
Related deferred tax asset	**3,875**	11,217
Net pension liability	**(18,914)**	(54,767)

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 £7.9m (equivalent to a return of about 3%) (2017: positive £28.9m (equivalent to a return of about 12%)).

During 2017/18 the Scheme experienced a higher number of individual transfers out of the Scheme for members who decided to withdraw their funds. This has impacted on benefits paid which increased to £26,074k (2017: £6,551K).

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 2017/18 %	**Change in liability 2017/18 £000**	Change in liability 2016/17 %	Change in liability 2016/17 £000
+ or - 0.25% in discount rate	**6.4**	**16,500**	6.5	19,800
+ or - 0.25% in rate of inflation	**6.0**	**15,400**	5.3	16,300
+ or - 0.25% in salary inflation	**1.1**	**2,800**	1.1	3,500
Increase in life expectancy of 1 year	**3.2**	**8,300**	3.0	9,300
Reduce long term improvements to 1.25%	**(1.4)**	**(3,500)**	(2.9)	(8,800)

Expected cash flows for the following year

	£000
Expected employer contributions	**11,148**
Expected total benefit payments:	
Year 1	**26,856**
Year 2	**27,661**
Year 3	**28,490**
Year 4	**29,345**
Year 5	**30,224**
Then for next 5 years (Total)	**165,270**

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 2018 £000	At 31 March 2017 £000
Subsidy		
Revenue subsidy from DfI (credited to revenue)	**290,437**	284,367
Revenue relating to road drainage (credited to revenue)	**21,047**	20,593
Revenue subsidy from DfI relating to third party contributions (credited to revenue)	**-**	-
Other receivables - subsidy (included in other receivables - Note C4)	**1,755**	1,551
Other sales to DfI (credited to revenue)	**1,278**	1,555
Trade receivables - other sales to DfI (included in trade receivables - Note C4)	**246**	358
Purchases		
Purchases from DfI (included in operating costs or capital expenditure)	**411**	948
Accruals - purchases from DfI (included in accruals - Note D2)	**378**	597
Loans and borrowings		
Loans from DfI during the year	**69,000**	30,000
Balance on loans from DfI at year end - Note B1	**1,082,560**	1,013,560
Loan interest to DfI - Note B2*	**48,365**	47,086
Loan interest owed to DfI at year end	**1,438**	580
Dividends		
Dividend to Shareholder - Note B3	**24,524**	23,262

* loan interest stated before capitalisation of £5,361k (2017: £3,516k) of interest.

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

Key management personnel's compensation

Details of the key management personnel's post-employment defined benefit plan and termination benefits are included in the Directors' remuneration report on pages 82 to 86. Key management personnel's compensation is disclosed in Note E1a.

Key management personnel's and Directors' transactions

The key personnel and Directors did not carry out any transactions with related parties of the Group.

G5 Subsequent events

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

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

Report on the audit of the financial statements

1 Opinion

We have audited the Group and Company financial statements (''financial statements'') of Northern Ireland Water Limited for the year ended 31 March 2018 which comprise the consolidated statement of financial position, company statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of cashflows, company statement of cashflows and related notes, including the summary of significant accounting policies set out in Note G1. The financial reporting framework that has been applied in their preparation is UK Law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

In our opinion:

- the Group financial statements gives a true and fair view of the state of the Group affairs as at 31 March 2018 and of its profit for the year then ended;
- the Company statement of financial position gives a true and fair view of the state of Company's affairs as at 31 March 2018;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006;
- the Group and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2006.

2 Opinion on regularity

In our opinion, in all material respects, the expenditure (disbursed) and income (received) have been applied to the purposes intended by the Department for Infrastructure 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 Basis for opinion

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

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

4 We have nothing to report on going concern

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

5 Other information

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

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

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

Based solely on the work undertaken in the course of the audit, we report that

- we have not identified material misstatements in the directors report or the strategic report;
- in our opinion, the information given in the directors' report and the strategic report is consistent with the financial statements;
- in our opinion, the directors' report and the strategic report have been prepared in accordance with the Companies Act 2006.

6 Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in regard to these matters.

Respective responsibilities and restrictions on use

1 Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set on page 87, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

2 Auditor's responsibilities for the audit of the financial statements

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

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

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

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

John Poole

John Poole Senior Statutory Auditor
for and on behalf of
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