



Regulatory Accounts 2016/17

Statement of Directors' Responsibilities

The Directors of NI Water are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of Northern Ireland Water Limited as a Water and Sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 and the relevant Regulatory Accounting Guidelines (RAGs). The Northern Ireland Authority for Utility Regulation ("the Utility Regulator") has directed that the RAGs followed in previous years should continue to be applied in 2016/17 and that revised RAGs will be introduced by the Utility Regulator in 2017/18 - 2018/19.

The information contained in the Regulatory Accounts may refer to disclosures in the Annual Report document and, as agreed with the Utility Regulator, it is not necessary to duplicate the same information in both documents.

Condition F6A of the Licence (Directors' certificate of going concern)

The Board confirms that to the best of its knowledge and belief:

- (1) in the opinion of the Directors, Northern Ireland Water Limited ("the Appointee") will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil NI Water's obligations under the Appointment).

Note 2(a) on page 14 fully outlines the current funding position for the Company and a short summary of this is provided below:

As required by the Licence, NI Water submitted a Business Plan to the Utility Regulator in March 2014 setting out its proposals for the price control period from 1 April 2015 to 31 March 2021 (PC15).

Due to a significant shortfall in Public Expenditure funding in 2015/16, and with no clarity of funding for the period beyond 2015/16, the Board had no option but to not accept the PC15 Final Determination in the circumstances.

NI Water engaged positively with the Utility Regulator and DfI* to agree changes to 2016/17 regulatory outputs due to the reduction in Public Expenditure funding in 2016/17. On 1 June 2016, the Utility Regulator confirmed acceptance of NI Water proposals for adjusted outputs for 2016/17 against which delivery was monitored.

DFI* has indicated that the final 2017/18 budget allocation for NI Water might fall below PC15 Final Determination so a similar process to 2016/17 has been undertaken to agree changes to 2017/18 regulatory outputs.

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 and as such these conditions do not cast a significant doubt on the Company's ability to continue as a going concern.

* Under the Departments Act (Northern Ireland) 2016 and The Departments (Transfer of Functions) Order (Northern Ireland) 2016 the number of NICS departments has reduced from 12 to 9 and in May 2016 the functions of the DRD transferred to the Department for Infrastructure (DfI).

- (2) in the opinion of the Directors the Appointee will, for at least the next 12 months, have available to it:
- (i) management resources;
 - (ii) methods of planning and internal control which, except for any control weaknesses reported separately to the Utility Regulator, are sufficient to enable it to carry out Regulated Activities necessary to fulfil its obligations under the Appointment; and
- (3) in the opinion of the Directors, no contracts were entered into with any Associated Company.

For and on behalf of the Board



Sara Venning
Chief Executive
27 June 2017

HISTORICAL COST FINANCIAL STATEMENTS

Profit and loss account

	Year to 31 March 2017			Year to 31 March 2016		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Turnover	372,851	5,940	378,791	367,287	5,536	372,823
Operating costs	(210,102)	(4,015)	(214,117)	(206,928)	(3,473)	(210,401)
Historical cost depreciation	<u>(55,773)</u>	<u>(16)</u>	<u>(55,789)</u>	<u>(54,364)</u>	<u>(16)</u>	<u>(54,380)</u>
Operating profit	106,976	1,909	108,885	105,995	2,047	108,042
Net interest payable	<u>(53,804)</u>	-	<u>(53,804)</u>	<u>(53,609)</u>	-	<u>(53,609)</u>
Profit on ordinary activities before taxation	53,172	1,909	55,081	52,386	2,047	54,433
<i>Taxation on profit on ordinary activities:</i>						
Corporation tax	(12)	(157)	(169)	(17)	(199)	(216)
Deferred tax	<u>(6,430)</u>	-	<u>(6,430)</u>	<u>2,536</u>	-	<u>2,536</u>
Profit on ordinary activities after taxation	46,730	1,752	48,482	54,905	1,848	56,753
Dividends	<u>(21,510)</u>	<u>(1,752)</u>	<u>(23,262)</u>	<u>(22,888)</u>	<u>(1,848)</u>	<u>(24,736)</u>
Retained profit for the financial year	25,220	-	25,220	32,017	-	32,017

Balance sheet

	At 31 March 2017			At 31 March 2016		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Fixed assets						
Tangible assets	2,201,787	33	2,201,820	2,139,613	49	2,139,662
Investments	91	-	91	91	-	91
	<u>2,201,878</u>	<u>33</u>	<u>2,201,911</u>	<u>2,139,704</u>	<u>49</u>	<u>2,139,753</u>
Current assets						
Stocks	2,347	7	2,354	2,368	6	2,374
Debtors	30,386	401	30,787	29,832	510	30,342
Infrastructure renewals prepayment	-	-	-	-	-	-
Cash at bank and in hand	2,913	709	3,622	3,015	154	3,169
	<u>35,646</u>	<u>1,117</u>	<u>36,763</u>	<u>35,215</u>	<u>670</u>	<u>35,885</u>
Creditors: amounts falling due within one year						
Payments received on account	(4,190)	-	(4,190)	(4,069)	-	(4,069)
Trade creditors	(5,890)	(66)	(5,956)	(8,098)	(85)	(8,183)
Taxation and social security	(1,282)	-	(1,282)	(1,336)	-	(1,336)
Other creditors	(12,546)	-	(12,546)	(11,055)	-	(11,055)
Accruals and deferred income	(110,109)	(1,084)	(111,193)	(104,649)	(634)	(105,283)
Deferred grants and contributions	(1,001)	-	(1,001)	(979)	-	(979)
PPP finance lease	(2,376)	-	(2,376)	(2,122)	-	(2,122)
Infrastructure renewals accrual	(921)	-	(921)	(5,844)	-	(5,844)
	<u>(138,315)</u>	<u>(1,150)</u>	<u>(139,465)</u>	<u>(138,152)</u>	<u>(719)</u>	<u>(138,871)</u>
Net current liabilities	<u>(102,669)</u>	<u>(33)</u>	<u>(102,702)</u>	<u>(102,937)</u>	<u>(49)</u>	<u>(102,986)</u>
Total assets less current liabilities	<u>2,099,209</u>	<u>-</u>	<u>2,099,209</u>	<u>2,036,767</u>	<u>-</u>	<u>2,036,767</u>
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(1,013,560)	-	(1,013,560)	(983,560)	-	(983,560)
Other creditors	(111,374)	-	(111,374)	(113,072)	-	(113,072)
	<u>(1,124,934)</u>	<u>-</u>	<u>(1,124,934)</u>	<u>(1,096,632)</u>	<u>-</u>	<u>(1,096,632)</u>
Provisions for liabilities and charges						
Deferred tax provision	(202,263)	-	(202,263)	(195,465)	-	(195,465)
Other provisions	(4,886)	-	(4,886)	(5,035)	-	(5,035)
	<u>(207,149)</u>	<u>-</u>	<u>(207,149)</u>	<u>(200,500)</u>	<u>-</u>	<u>(200,500)</u>
Pension liability	<u>(54,767)</u>	<u>-</u>	<u>(54,767)</u>	<u>(5,880)</u>	<u>-</u>	<u>(5,880)</u>
Net Assets	<u>712,359</u>	<u>-</u>	<u>712,359</u>	<u>733,755</u>	<u>-</u>	<u>733,755</u>
Capital and reserves						
Called up share capital	500,000	-	500,000	500,000	-	500,000
Distributable reserve	171,690	-	171,690	171,690	-	171,690
Profit and loss account	40,669	-	40,669	62,065	-	62,065
	<u>712,359</u>	<u>-</u>	<u>712,359</u>	<u>733,755</u>	<u>-</u>	<u>733,755</u>
Shareholder's funds	<u>712,359</u>	<u>-</u>	<u>712,359</u>	<u>733,755</u>	<u>-</u>	<u>733,755</u>

These financial statements were approved and authorised for issue by the Board of Directors on 27 June 2017 and were signed on its behalf by:



Sara Venning
Chief Executive
27 June 2017

Statement of total recognised gains and losses

	Year to 31 March 2017			Year to 31 March 2016		
	Appointed business	Non - Appointed business	Total	Appointed business	Non - Appointed business	Total
	£000	£000	£000	£000	£000	£000
Profit for the financial year	25,220	-	25,220	32,017	-	32,017
Actuarial (loss)/gain recognised in the pension scheme	(56,179)	-	(56,179)	5,348	-	5,348
Deferred tax arising on losses/(gains) in the pension scheme	<u>9,558</u>	-	<u>9,558</u>	<u>(1,054)</u>	-	<u>(1,054)</u>
Total recognised gains and losses relating to the financial year	<u>(21,401)</u>	-	<u>(21,401)</u>	<u>36,311</u>	-	<u>36,311</u>

Reconciliation between Statutory Accounts and historical cost Regulatory Accounts for the appointed and non-appointed business

The Company's Statutory Accounts are prepared under IFRS and this is reflected in its Statutory Accounts for the year ended 31 March 2017. However the Regulatory Accounts are prepared on the basis of Regulatory Accounting Guidelines and previous UK GAAP. The principal differences between the Company's Statutory Accounts and its Regulatory Accounts are set out below.

Profit and loss account / Statement of comprehensive income	Year to 31 March 2017 £000
a) Operating profit / Results from operating activities	
Per Regulatory Accounts	108,885
Difference in income under IFRIC 18	43,621
Difference in infrastructure accounting	8,010
Difference in depreciation - non infrastructure	(6,122)
Difference in amortisation of grants and contributions	(642)
Difference in treatment of PPP contracts	13,695
Difference in capitalisation of expenditure	<u>(1,055)</u>
Per Statutory Accounts	<u>166,392</u>
b) Net interest payable / Net finance costs	
Per Regulatory Accounts	(58,803)
Capitalised interest under IFRS	3,516
Notional lease interest on PPP assets reclassified under IFRS	<u>(13,193)</u>
Per Statutory Accounts	<u>(63,480)</u>
c) Deferred taxation/Income tax credit	
Per Regulatory Accounts	<u>(6,600)</u>
Per Statutory Accounts	<u>(6,600)</u>

Reconciliation between Statutory Accounts and historical cost Regulatory Accounts for the appointed and non-appointed business (continued)

Balance sheet / Statement of financial position	At 31 March 2017 £000
a) Fixed Assets / Property, plant and equipment	
Cost	
At 31 March per Regulatory Accounts	2,886,636
Reverse regulatory infrastructure (accrual) / prepayment	(921)
Intangible assets separately identified under IFRS	(78,815)
Investment properties separately identified under IFRS	(18,760)
Assets identified as classified as held for sale	(1,436)
Difference in capitalisation of expenditure	(18,605)
Capitalised interest under IFRS	20,837
PPP assets treated 'on balance sheet' under IFRS	123,328
Capital contributions treated differently under IFRS	421,843
De-recognition of infrastructure assets	(19,049)
Decommissioning of Omega assets under UK GAAP	6,939
At 31 March per Statutory Accounts	3,321,997
Depreciation	
At 31 March per Regulatory Accounts	684,816
Intangible assets separately identified under IFRS	(46,037)
Investment properties separately identified under IFRS	(12,495)
Assets identified as classified as held for sale	(652)
Difference in depreciation of infrastructure assets	(179,544)
Difference in depreciation of non-infrastructure assets	40,002
De-recognition of infrastructure assets	(19,049)
Decommissioning of Omega assets under UK GAAP	6,763
At 31 March per Statutory Accounts	473,804
b) Debtors due in less than one year / trade and other receivables	
At 31 March per Regulatory Accounts	30,787
Prepayments shown separately under IFRS	(11,219)
Capital maintenance prepayment for IFRS PPP reclassified assets	3,508
At 31 March per Statutory Accounts	23,076

Reconciliation between Statutory Accounts and historical cost Regulatory Accounts for the appointed and non-appointed business (continued)

Balance sheet / Statement of financial position	At 31 March 2017 £000
c) Provisions	
At 31 March per Regulatory Accounts	4,887
Holiday pay provision under IFRS	710
At 31 March per Statutory Accounts	5,597
Provisions classified as non-current liabilities	2,891
Provisions classified as current liabilities	2,706
At 31 March per Statutory Accounts	5,597
d) Loans and borrowings	
At 31 March per Regulatory Accounts	1,013,560
Add: Alpha PPP lease liability shown in Regulatory Accounts within creditors: amounts falling due after more than one year	88,002
Add: Alpha PPP lease liability shown in Regulatory Accounts within creditors: amounts falling due within one year	2,376
Add: finance leases for PPP assets (Omega and Kinnegar) included as on balance sheet under IFRS and included within loans and borrowings	118,175
At 31 March per Statutory Accounts	1,222,113
Loans and borrowings classified as non-current liabilities	1,217,270
Loans and borrowings classified as current liabilities	4,843
At 31 March per Statutory Accounts	1,222,113

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Profit and loss account for the appointed business

	<i>Note</i>	Year to 31 March 2017	Year to 31 March 2016
		£000	£000
Turnover	3	372,851	367,287
Current cost operating costs	4	(318,469)	(315,156)
Current cost (loss)/profit on disposal of fixed assets	3	(489)	91
Working capital adjustment	3,8	3,032	1,516
Current cost operating profit		56,925	53,738
Net interest payable		(53,802)	(53,609)
Financing adjustment	8	32,561	16,324
Current cost profit before taxation		35,684	16,453
Taxation on profit on ordinary activities		(12)	(18)
Deferred tax (charge)/credit		(6,431)	2,536
Current cost profit attributable to Shareholder		29,241	18,971
Dividends		(21,510)	(22,887)
Current cost profit/(loss) retained	7	7,731	(3,916)

Balance Sheet for the appointed business

		At 31 March 2017		At 31 March 2016	
	Note	£000	£000	£000	£000
Fixed assets					
Tangible assets	5	9,371,639		9,043,822	
Third party contributions		(536,176)		(481,575)	
			8,835,463		8,562,247
Working capital	6	(100,864)		(96,556)	
Cash	9	412		2,015	
Short term deposits	9	2,501		1,000	
Infrastructure renewals accrual		(921)		(5,844)	
			(98,872)		(99,385)
Non-operating assets and liabilities					
Non-trade debtors		369		176	
Non-trade creditors due within one year		(3,165)		(2,746)	
Investments		91		91	
			(2,705)		(2,479)
Total non-operating liabilities					
Creditors: amounts falling due after more than one year					
Borrowings		(1,013,560)		(983,560)	
Other creditors		(89,304)		(91,751)	
			(1,102,864)		(1,075,311)
Provisions for liabilities and charges					
Deferred tax provision		(202,263)		(195,465)	
Other provisions		(4,887)		(5,035)	
			(207,150)		(200,500)
Pension liability			(54,767)		(5,880)
Net assets			<u>7,369,105</u>		<u>7,178,692</u>
Capital and reserves					
Called up share capital		500,000		500,000	
Distributable reserve		171,690		171,690	
Profit and loss account	7	(438,992)		(400,102)	
Current cost reserves	8	7,136,407		6,907,104	
Shareholder's funds			<u>7,369,105</u>		<u>7,178,692</u>

These financial statements were approved and authorised for issue by the Board of Directors on 27 June 2017 and were signed on its behalf by:


Sara Venning
Chief Executive
27 June 2017

Reconciliation of movements in Shareholder's funds

	Year to 31 March 2017	Year to 31 March 2016
	£000	£000
Profit for the financial year	29,241	18,971
Dividends on shares classified in Shareholder's funds	<u>(21,510)</u>	<u>(22,887)</u>
Retained profit / (loss)	7,731	(3,916)
Other recognised (losses)/gains relating to the year (net)	<u>(46,621)</u>	4,294
Profit and loss account	(38,890)	378
Increase in current cost reserves	<u>229,303</u>	113,396
Net addition to Shareholder's funds	<u>190,413</u>	113,774
Opening Shareholder's funds	7,178,692	7,064,918
Closing Shareholder's funds	<u>7,369,105</u>	<u>7,178,692</u>

Cash flow statement

	Year to 31 March 2017			Year to 31 March 2016		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Net cash inflow from operating activities Note 11(a)	<u>182,677</u>	<u>2,478</u>	<u>185,155</u>	<u>170,228</u>	<u>1,866</u>	<u>172,094</u>
Returns on investments and servicing of finance						
Interest received	74	-	74	92	-	92
Interest paid	(46,945)	-	(46,945)	(46,568)	-	(46,568)
Interest element of finance lease	(6,562)	-	(6,562)	(6,701)	-	(6,701)
Net cash outflow from returns on investments and servicing of finance	<u>(53,433)</u>	<u>-</u>	<u>(53,433)</u>	<u>(53,177)</u>	<u>-</u>	<u>(53,177)</u>
Corporation tax paid	<u>-</u>	<u>(171)</u>	<u>(171)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital expenditure and financial investment						
Purchase of tangible fixed assets	(128,215)	-	(128,215)	(115,602)	-	(115,602)
Grants and contributions received	11,550	-	11,550	7,980	-	7,980
Infrastructure renewals expenditure	(20,145)	-	(20,145)	(20,144)	-	(20,144)
Disposal of fixed assets	1,096	-	1,096	1,693	-	1,693
Net cash outflow from investing activities	<u>(135,714)</u>	<u>-</u>	<u>(135,714)</u>	<u>(126,073)</u>	<u>-</u>	<u>(126,073)</u>
Equity dividends paid to the Shareholder	<u>(21,510)</u>	<u>(1,752)</u>	<u>(23,262)</u>	<u>(22,887)</u>	<u>(1,849)</u>	<u>(24,736)</u>
Cash (outflow) / inflow before management of liquid resources and financing	<u>(27,980)</u>	<u>555</u>	<u>(27,425)</u>	<u>(31,909)</u>	<u>17</u>	<u>(31,892)</u>
Management of liquid resources	(1,501)	-	(1,501)	(980)	-	(980)
Cash (outflow) from management of liquid resources	<u>(1,501)</u>	<u>-</u>	<u>(1,501)</u>	<u>(980)</u>	<u>-</u>	<u>(980)</u>
Net cash flow before financing	<u>(29,481)</u>	<u>555</u>	<u>(28,926)</u>	<u>(32,889)</u>	<u>17</u>	<u>(32,872)</u>
Financing						
Loans advanced	30,000	-	30,000	36,000	-	36,000
Capital element of finance lease repayments	(2,122)	-	(2,122)	(1,888)	-	(1,888)
Net cash inflow from financing	<u>27,878</u>	<u>-</u>	<u>27,878</u>	<u>34,112</u>	<u>-</u>	<u>34,112</u>
Net (decrease)/increase in cash	<u>(1,603)</u>	<u>555</u>	<u>(1,048)</u>	<u>1,223</u>	<u>17</u>	<u>1,240</u>

Notes to the Regulatory Accounts

1 Regulatory reporting

To further understand the performance of the business the Regulatory Accounts should be read in conjunction with the Strategic Report on pages 5 to 49 of the Northern Ireland Water Annual Report and Accounts 2016/17 ('The Annual Report'). Reference should be made to the Directors' report in the Annual Report which provides information on the dividend policy (page 60) and on 'Disclosure of information to auditors' (page 61). The Annual Report also includes The Directors' remuneration report on pages 62 to 66 and information on Directors' pay and standards of performance in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006. The Directors confirm that no amounts were given to charitable trusts assisting customers or similar funds in the year ended 31 March 2017.

2 Accounting policies

(a) Basis of preparation

The Regulatory Accounts have been prepared on such a basis as to comply with the requirements of the Utility Regulator. These requirements are similar to previous guidance issued by Ofwat, the economic regulator for the water and sewerage industry in England and Wales. The Regulatory Accounts have been prepared in accordance with Condition F of the 'Instrument of Appointment by the Department for Regional Development* of Northern Ireland Water Limited as a Water and Sewerage undertaker' and the Ofwat Regulatory Accounting Guidelines (RAGS) adopted by the Utility Regulator and modified where required for conditions prevalent in Northern Ireland, the accounting policies set out in these notes and, in the case of the Regulatory Historic Cost Accounts, under the historical cost convention. The Regulatory Accounts have been prepared on a going concern basis notwithstanding the net current liabilities. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Company operates as described below.

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

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

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

On 10 February 2015, NI Water advised the Utility Regulator that the Board would, on balance, have been willing to accept the PC15 Final Determination subject to Public Expenditure funding to the levels established by the PC15 Final Determination, an appropriate risk mitigation mechanism and other flexibilities. However a significant shortfall in Public Expenditure funding in 2015/16 and no clarity of funding for the period beyond 2015/16, meant the Board had no option but to not accept the PC15 Final Determination in the circumstances.

*On 9th May 2016 the Department for Infrastructure (DfI) was formed. The Department for Infrastructure has taken on all the responsibilities of the Department for Regional Development.

2 Accounting policies (continued)

(a) Basis of preparation (continued)

NI Water engaged positively with the Utility Regulator and DRD to agree changes to 2016/17 regulatory outputs due to the reduction in Public Expenditure funding in 2016/17. On 1 June 2016, the Utility Regulator confirmed acceptance of NI Water proposals for adjusted outputs for 2016/17 against which delivery was monitored.

DfI (formally DRD) has confirmed that the final 2017/18 budget allocation for NI Water might fall below PC15 Final Determination so a similar process is being undertaken to agree changes to 2017/18 regulatory outputs.

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

On the basis of the 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 and 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 capital loan arrangement to 31 March 2021 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 will provide access to cash facilities for short-term needs and for unforeseen events/emergency situations;
- the Subsidy Agreement with DfI (formerly known as DRD) permits the early drawdown of subsidy in year if the cash is required; and
- Access to transactional banking services under the Northern Ireland Civil Service arrangements established from 1 April 2016.

(b) General

The regulatory accounting policies are based on 'old' UK GAAP (i.e. UK GAAP in existence prior to the introduction of FRS100, FRS101 and FRS102). The Statutory Accounts are based on IFRSs (as adopted by the EU). A reconciliation between the Statutory Accounts and the historical cost Regulatory Accounts for the appointed and non-appointed business is included in the Regulatory Accounts (pages 7-9). The significant differences between the accounting policies adopted in the Statutory Accounts and those adopted for the Regulatory Accounts are summarised below.

2 Accounting policies (continued)

(c) Tangible fixed assets and depreciation

The RAGs and any modifications issued by the Utility Regulator have been followed in the preparation of the current cost accounts. The Utility Regulator does not require NI Water to revalue its assets on a Modern Equivalent Asset Value (MEAV) basis, in accordance with the RAGs. Tangible fixed assets are restated to current value each year. The Retail Price Index (RPI) has been used to reflect changes in the general level of inflation during the year. Assets in the course of construction are not indexed until they are brought into use. The infrastructure renewals charge (IRC) is part of the renewals accounting approach permitted under 'old' UK GAAP (see 2(b) above) but not permitted under IFRS (IFRS requires depreciation of infrastructure assets in line with appropriate asset lives). The IRC is defined as the annual accounting provision for expenditure on the renewal of infrastructure assets charged to the profit and loss account. It should reflect the Company's assessment of its medium to long term infrastructure renewals expenditure (IRE) needs. The IRC for NI Water is based on the determination of PC15. The Utility Regulator determined that the IRC should be set equal to the anticipated IRE for each year of the six years contained within the business plan. The IRE formed part of the PC15 capital expenditure plan. The IRE in the year ended 31 March 2017 was based on an analysis of capital expenditure on a project-by-project basis. The capitalisation policy differs between the Regulatory Accounts and Statutory Accounts in relation to IRE. Some elements of IRE capitalised under 'old' UK GAAP are categorised as infrastructure repairs under IFRS and as such, are expensed directly to profit under IFRS. Infrastructure assets which have been replaced are de-recognised under IFRS, whereas the 'old' UK GAAP approach in the Regulatory Accounts does not derecognise these replaced assets.

(d) Grants and other third party contributions

Grants, infrastructure and third party contributions include government grants, infrastructure charges, connection charges, requisitioning of water mains or sewers, sewer adoption fees and contributions from third parties. Grants and contributions for capital expenditure, other than infrastructure assets, are credited to a deferral account within creditors and are released to the profit and loss account evenly over the expected useful life of the relevant asset in accordance with the Companies Act 2006. Grants, contributions and capital subsidy for capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with the Companies Act 2006 which requires grants and contributions to be shown as deferred income, but has been adopted in order to show a true and fair view, in the opinion of the Directors. This approach is consistent with the policy on depreciation of infrastructure assets permitted under 'old' UK GAAP and adopted in the Regulatory Accounts as outlined above in note 2(c). Under 'old' UK GAAP a provision is made for depreciation of infrastructure assets but this it is not calculated with reference to useful economic lives (UELs). Hence, unlike in the Statutory Accounts under IFRS, capital contributions are not recognised as deferred income and amortised in line with UELs but are deducted directly from the cost of these assets. Under IFRS, all third party contributions are treated as income at the point of recognition and are credited to turnover. Grants are treated similarly in the Statutory and Regulatory Accounts.

(e) Real financial capital maintenance adjustments

These adjustments are made to historical cost operating profit in order to arrive at profit after the maintenance of financial capital in real terms:

- working capital adjustment – this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock, less trade creditors; and
- financing adjustment – this is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all assets and liabilities in the balance sheet apart from those included in working capital and excluding fixed assets, deferred taxation provision, index linked debt and dividends payable.

2 Accounting policies (continued)

(f) Apportionment of costs between the appointed and non-appointed business activities

The non-appointed business relates mainly to septic tank emptying, vehicle maintenance services carried out on behalf of, primarily, DfI (formerly known as DRD) Transport NI and income associated with aerial masts erected on Company property. A reasonable proportion of operating and other costs have been apportioned to these activities based on turnover and assumptions on the costs incurred. The results from the non-appointed activities are shown in the historical cost financial statements and regulatory cash flow statements.

(g) PPP contracts

The Regulatory Accounts under 'old' UK GAAP treat the Alpha project as 'on balance sheet' and the Omega and Kinnegar projects as 'off balance sheet'. This is in line with 'old' UK GAAP and the assessment of where the risks and rewards of the contracts reside. The assets associated with Alpha are capitalised and shown on NI Water's balance sheet, with a corresponding finance lease creditor established. The unitary charges for Alpha are apportioned to the profit and loss account (service charges and finance lease interest) and to the balance sheet (lease repayment and capital maintenance). The Omega and Kinnegar assets are not deemed to be owned by NI Water and are not shown on the balance sheet. The unitary charges for Omega and Kinnegar are apportioned to the profit and loss account (service charges) and to the balance sheet (residual interest asset). The residual interest asset recognises a build-up of value on the balance sheet, until the residual value of the assets revert to NI Water at the end of the contract period. The Statutory Accounts under IFRS treat all three PPP projects as 'on balance sheet' and as such all associated assets are capitalised and corresponding finance leases are created.

(h) Provisions

An additional provision for holiday pay has been included in the Statutory Accounts as required under IFRS.

3 Analysis of current cost turnover and operating income for the appointed business

	Year to 31 March 2017			Year to 31 March 2016		
	Water services £000	Sewerage services £000	Total £000	Water services £000	Sewerage services £000	Total £000
Turnover						
Unmeasured – household	123,828	141,172	265,000	125,277	138,923	264,200
Unmeasured – non household	2,041	2,401	4,442	1,829	2,125	3,954
Total unmeasured	125,869	143,573	269,442	127,106	141,048	268,154
Measured – non household	41,096	27,518	68,614	39,955	24,739	64,694
Total measured	41,096	27,518	68,614	39,955	24,739	64,694
Trade effluent	-	4,278	4,278	-	4,557	4,557
Large user and special agreements	4,980	4,105	9,085	4,980	4,286	9,266
Total trade effluent and large user special agreements	4,980	8,383	13,363	4,980	8,843	13,823
Rechargeable works	64	64	128	65	65	130
Other third party services	368	20,936	21,304	196	20,290	20,486
Total third party services	432	21,000	21,432	261	20,355	20,616
Total turnover	172,377	200,474	372,851	172,302	194,985	367,287

	Year to 31 March 2017			Year to 31 March 2016		
	Water services £000	Sewerage services £000	Total £000	Water services £000	Sewerage services £000	Total £000
Operating income and working capital adjustment for the appointed business:						
Current cost (loss)/profit on disposal of fixed assets	(523)	34	(489)	(83)	174	91
Working capital adjustment	3,032	-	3,032	1,516	-	1,516

4a Analysis of operating costs and tangible fixed assets

	Year to 31 March 2017								
	Water Services			Sewerage Services					Total £000
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000		
Direct costs									
Employment costs	3,615	8,842	12,457	3,930	4,724	294	8,948	21,405	
Power	9,064	3,092	12,156	3,952	9,676	1,088	14,716	26,872	
Hired and contracted services	2,745	5,835	8,580	4,300	2,514	1,912	8,726	17,306	
Materials and consumables	3,576	492	4,068	222	460	499	1,181	5,249	
Service charges	746	7	753	132	468	189	789	1,542	
Other direct costs	6	37	43	7	16	-	23	66	
Total direct costs	19,752	18,305	38,057	12,543	17,858	3,982	34,383	72,440	
General and support expenditure	9,046	10,224	19,270	7,518	12,407	1,700	21,625	40,895	
Total functional expenditure	28,798	28,529	57,327	20,061	30,265	5,682	56,008	113,335	
Business activities									
Customer services			4,660				4,188	8,848	
Scientific services			1,424				1,280	2,704	
Other business activities			558				501	1,059	
Rates			16,113				9,748	25,861	
Doubtful debts			279				225	504	
Total operating expenditure less third party services			80,361				71,950	152,311	
Services for third parties			1				-	1	
Total PPP unitary charge			9,062				25,377	34,439	
Total operating expenditure			89,424				97,327	186,751	
Capital costs									
Infrastructure renewals charge			10,253				14,755	25,008	
<i>Current cost depreciation:</i>									
service activities			45,067				65,539	110,606	
business activities			248				-	248	
Amortisation of grants			(1,608)				(2,536)	(4,144)	
Total capital costs			53,960				77,758	131,718	
Total operating costs			143,384				175,085	318,469	
Analysis of tangible fixed assets – MEAV²									
Service activities	801,501	3,552,793	4,354,294	3,596,435	1,387,163	33,383	5,016,981	9,371,275	
Business activities			246				128	374	
Total			4,354,540				5,017,109	9,371,649	

² Asset values shown above are based on the valuation method described in note 2(c) to the Regulatory Accounts.

4b Analysis of operating costs and tangible fixed assets

	Year to 31 March 2016							
	Water Services			Sewerage Services				Total £000
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	
Direct costs								
Employment costs	3,573	10,559	14,132	4,367	4,959	214	9,540	23,672
Power	9,187	3,280	12,467	5,331	10,786	1,248	17,365	29,832
Hired and contracted services	2,196	5,294	7,490	4,657	1,865	2,163	8,685	16,175
Materials and consumables	3,565	510	4,075	132	468	473	1,073	5,148
Service charges	731	13	744	148	652	185	985	1,729
Other direct costs	3	46	49	12	9	1	22	71
Total direct costs	19,255	19,702	38,957	14,647	18,739	4,284	37,670	76,627
General and support expenditure	7,004	8,719	15,723	7,780	10,127	1,462	19,369	35,092
Total functional expenditure	26,259	28,421	54,680	22,427	28,866	5,746	57,039	111,719
Business activities								
Customer services			4,222				4,049	8,271
Scientific services			1,321				1,267	2,588
Other business activities			619				594	1,213
Rates			15,803				10,744	26,547
Doubtful debts			302				(566)	(264)
Total operating expenditure less third party services			76,947				73,127	150,074
Services for third parties			-				-	-
Total PPP unitary charge			8,225				25,096	33,321
Total operating expenditure			85,172				98,223	183,395
Capital costs								
Infrastructure renewals charge			14,410				10,876	25,286
<i>Current cost depreciation:</i>								
service activities			42,499				67,855	110,354
business activities			164				4	168
Amortisation of grants			(1,588)				(2,459)	(4,047)
Total capital costs			55,485				76,276	131,761
Total operating costs			140,657				174,499	315,156
Analysis of tangible fixed assets – MEAV ³								
Service activities	777,740	3,442,199	4,219,939	3,451,867	1,339,064	32,578	4,823,509	9,043,448
Business activities			246				128	374
Total			4,220,185				4,823,637	9,043,822

³ Asset values shown above are based on the valuation method described in note 2(c) to the Regulatory Accounts.

4a and 4b - Analysis of operating costs and tangible fixed assets (continued)

The tables above showing the analysis of operating costs have been prepared in accordance with Regulatory Accounting Guidelines 4.03 'Analysis of operating costs and assets'. Direct costs have been charged directly to the service to which they relate. General and support costs are, where possible, allocated directly to the service to which they relate. Any remaining general and support costs which cannot be directly allocated to a particular service are apportioned either on the basis of the directly coded spend or on the basis of the direct labour charge. All costs relating to business activities such as customers services, scientific services and other, were collated using the relevant cost centre from the General Ledger. The total expenditure attributable to these activities was apportioned to water and sewerage on the basis of the directly coded expenditure.

Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for the year ended 31 March 2017 in respect of infrastructure assets amounted to £7.7m (2016: £7.2m) for water services and £2.5m (2016: £2.5m) for sewerage services.

5 Current cost analysis of tangible fixed assets by assets type

Water Services	Specialised Operational Assets £000	Non - Specialised Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross replacement cost					
At 1 April 2016	1,112,145	6,451	3,496,603	55,956	4,671,155
RPI and other adjustments	33,429	21	111,160	1,763	146,373
Disposals	(3,277)	-	-	(987)	(4,264)
Additions	27,834	-	17,954	2,974	48,762
At 31 March 2017	1,170,131	6,472	3,625,717	59,706	4,862,026
Depreciation					
At 1 April 2016	(352,018)	(1,235)	(54,614)	(43,103)	(450,970)
RPI and other adjustments	(11,064)	-	(1,723)	(1,367)	(14,154)
Disposals	2,361	-	-	583	2,944
Charge for year	(42,262)	-	-	(3,053)	(45,315)
At 31 March 2017	(402,983)	(1,235)	(56,337)	(46,940)	(507,495)
Net book value at 31 March 2017	767,148	5,237	3,569,380	12,766	4,354,531
Net book value at 1 April 2016	760,127	5,216	3,441,989	12,853	4,220,185

5 Current cost analysis of tangible fixed assets by assets type (continued)

Sewerage Services	Specialised Operational Assets £000	Non - Specialised Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross replacement cost					
At 1 April 2016	1,768,223	9,137	3,596,281	50,415	5,424,056
RPI and other adjustments	54,330	-	110,271	2,053	166,654
Disposals	(462)	-	-	(789)	(1,251)
Additions	65,121	-	44,020	2,336	111,477
At 31 March 2017	1,887,212	9,137	3,750,572	54,015	5,700,936
Depreciation					
At 1 April 2016	(546,345)	(3,426)	(2,786)	(47,862)	(600,419)
RPI and other adjustments	(17,251)	-	(83)	(1,523)	(18,857)
Disposals	233	-	-	753	986
Charge for year	(62,294)	-	-	(3,245)	(65,539)
At 31 March 2017	(625,657)	(3,426)	(2,869)	(51,877)	(683,829)
Net book value at 31 March 2017	1,261,555	5,711	3,747,703	2,138	5,017,107
Net book value at 1 April 2016	1,221,878	5,711	3,593,495	2,553	4,823,637
Total Services					
Total Services	Specialised Operational Assets £000	Non - Specialised Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross replacement cost					
At 1 April 2016	2,880,369	15,588	7,092,884	106,371	10,095,212
RPI and other adjustments	87,759	21	221,431	3,816	313,027
Disposals	(3,739)	-	-	(1,776)	(5,515)
Additions	92,955	-	61,974	5,310	160,239
At 31 March 2017	3,057,344	15,609	7,376,289	113,721	10,562,963
Depreciation					
At 1 April 2016	(898,363)	(4,661)	(57,400)	(90,965)	(1,051,389)
RPI and other adjustments	(28,315)	-	(1,806)	(2,890)	(33,011)
Disposals	2,594	-	-	1,336	3,930
Charge for year	(104,556)	-	-	(6,298)	(110,854)
At 31 March 2017	(1,028,640)	(4,661)	(59,206)	(98,817)	(1,191,324)
Net book value at 31 March 2017	2,028,704	10,948	7,317,083	14,904	9,371,639
Net book value at 1 April 2016	1,982,006	10,927	7,035,484	15,406	9,043,823

5 Current cost analysis of tangible fixed assets by assets type (continued)

In the preparation of its Statutory Accounts, the Company has adopted IFRS.

The Regulatory Accounts are prepared under 'old' UK GAAP except in relation to infrastructure renewals accounting as required by FRS 15 'Tangible Fixed Assets'. FRS 15 is not applied for the purposes of infrastructure renewals accounting within the Regulatory Accounts.

A reconciliation of the tangible fixed assets shown in the Regulatory Accounts to those shown in the Statutory Accounts is set out below:

	Infrastructure Assets £000
Cost	
At 31 March 2017 per Regulatory Accounts	7,376,289
Adjustment to opening balance at 1 April 2016 ⁴	(5,995,552)
Add back capital contributions	421,843
Infrastructure renewals expenditure capitalised in the year	29,931
Decommissioning of Omega assets under previous UK GAAP	2,522
IFRS adjustments:	
Difference in treatment of capitalisation of expenditure	(18,605)
Capitalised interest	8,977
Difference in treatment of PPP assets	9,509
De-recognition of assets	(19,049)
At 31 March 2017 per Statutory Accounts	1,815,865
Depreciation	
At 31 March 2017 per Regulatory Accounts	(59,206)
Depreciation charge for infrastructure expenditure	(64,870)
At 31 March 2017 per Statutory Accounts	(124,076)
Net book value	
At 31 March 2017 per Regulatory Accounts	7,317,083
Adjustment to opening balance at 1 April 2016	(5,995,552)
Add back capital contributions	421,843
Infrastructure renewals expenditure capitalised in the year	29,931
Decommissioning of Omega assets under previous UK GAAP	2,522
Depreciation charge for infrastructure expenditure	(64,870)
IFRS adjustments	(19,168)
At 31 March 2017 per Statutory Accounts	1,691,789
Infrastructure renewals accrual	
At 31 March 2017 per Regulatory Accounts	(921)
Less infrastructure renewals accrual	921
At 31 March 2017 per Statutory Accounts	-

⁴ This adjustment includes the impact of reporting the additions to infrastructure assets in 'Assets in course of construction' within the Statutory Accounts.

6 Working capital (current cost)

	At 31 March 2017 £000	At 31 March 2016 £000
Stocks	2,347	2,368
Trade debtors:		
- measured non-household	7,140	7,110
- unmeasured non-household	2,811	2,714
Other trade debtors	706	367
Measured income accrual	9,513	10,230
Prepayments and other debtors	9,845	9,235
Trade creditors	(5,892)	(8,097)
Deferred income - customer advance receipts	(4,191)	(4,069)
Capital creditors	(66,837)	(60,871)
Accruals and other creditors	(56,306)	(55,543)
	<u>(100,864)</u>	<u>(96,556)</u>

7 Profit and loss reserve

	At 31 March 2017 £000	At 31 March 2016 £000
At 1 April	(400,102)	(400,480)
Retained current profit/ (loss) for year	7,731	(3,916)
FRS 17 actuarial (loss)/gain	(56,179)	5,348
Deferred tax on actuarial loss/(gain)	9,558	(1,054)
At 31 March	<u>(438,992)</u>	<u>(400,102)</u>

8 Movement on current cost reserve

	At 31 March 2017 £000	At 31 March 2016 £000
At 1 April	6,907,104	6,793,708
RPI adjustments:		
Fixed assets	280,019	135,704
Grants and third party contributions	(15,123)	(4,468)
Working capital	(3,032)	(1,516)
Financing	(32,561)	(16,324)
At 31 March	<u>7,136,407</u>	<u>6,907,104</u>

9 Net debt analysis

	Fixed rate Year to 31 March 2017 £000	Total Year to 31 March 2017 £000	Fixed rate Year to 31 March 2016 £000	Total Year to 31 March 2016 £000
Maturity Profile				
Less than one year	(2,376)	(2,376)	(2,122)	(2,122)
Between one and two years	(5,194)	(5,194)	(4,497)	(4,497)
Between two and five years	(7,791)	(7,791)	(6,745)	(6,745)
Between five and twenty years	(1,088,577)	(1,088,577)	(1,062,696)	(1,062,696)
More than twenty years	-	-	-	-
Total borrowings	<u>(1,103,938)</u>	<u>(1,103,938)</u>	<u>(1,076,060)</u>	<u>(1,076,060)</u>
Cash	412	412	2,015	2,015
Short term deposits	2,501	2,501	1,000	1,000
Net debt at 31 March	<u>(1,101,025)</u>	<u>(1,101,025)</u>	<u>(1,073,045)</u>	<u>(1,073,045)</u>

10 Reconciliation of historical cost profit to current cost operating profit/(loss)

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Historical cost profit per regulatory accounts	25,220	32,017
Add back non-appointed activities loss	-	-
Sub-total historical cost profit	<u>25,220</u>	<u>32,017</u>
Less difference in profit on disposals	(1,144)	(708)
Working capital adjustment	3,032	1,516
Financing adjustment	32,560	16,324
Add back historical cost depreciation including infrastructure renewals charge	80,781	79,650
Less current cost depreciation	(110,854)	(110,522)
Less infrastructure renewals charge	(25,008)	(25,286)
Add back historical cost amortisation of grant reserve	(1,001)	(954)
Less current cost amortisation of grant reserve	4,144	4,047
Current cost operating profit/(loss)	<u>7,730</u>	<u>(3,916)</u>

11a Reconciliation of current cost operating profit to net cash inflow from operating activities for the appointed business

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Current cost operating profit	56,925	53,738
Working capital adjustment	(3,032)	(1,516)
Movement in working capital	(1,670)	(9,675)
Current cost depreciation	110,854	110,522
Current cost profit on sale of fixed assets	489	(91)
Infrastructure renewals charge	25,008	25,286
Other non-cash items		
Amortisation of deferred grants and contributions	(4,144)	(4,047)
PPP residual asset credits	(3,645)	(3,556)
Excess of pension payments over FRS17 charge	2,040	369
Movement in provisions and creditors greater than 1 year	(148)	(802)
Net cash inflow from operating activities	182,677	170,228

11b Analysis of net debt

	1 April 2016 £000	Cash flows £000	Non cash* changes £000	31 March 2017 £000
Cash at bank and in hand	2,015	(1,603)	-	412
Deposits and investments	1,000	1,501	-	2,501
	<u>3,015</u>	<u>(102)</u>	<u>-</u>	<u>2,913</u>
Debt due within one year	(2,122)	-	(254)	(2,376)
Debt due after one year (including PPP liability)	(1,073,938)	(27,878)	254	(1,101,562)
Total	<u>(1,073,045)</u>	<u>(27,980)</u>	<u>-</u>	<u>(1,101,025)</u>

* The non cash changes relate to the movement during the year on the PPP liability due within one year.

12 Regulatory capital value (RCV)

The Regulatory Capital Value (RCV) has been developed for regulatory purposes and represents the capital base established for the purposes of setting price limits.

In line with Regulatory Accounting Guideline (RAG) 1.04, this note is compiled using figures assumed in setting prices during the Price Control (PC) process. Figures in 2016/17 are therefore consistent with figures contained within the Water and Sewerage Service Price Control 2015-2021 (PC15) published by the Utility Regulator in December 2014.

Within the RCV, the prior year balance and in year capital expenditure have been indexed by the average Retail Price Index (RPI) over the year to March.

	At 31 March 2017 £'m	At 31 March 2016 £'m
Prior Year Closing RCV	2,133.3	2,045.5
Indexation and other adjustments	45.7	22.0
Opening RCV	<u>2,179.0</u>	<u>2,067.50</u>
Capital expenditure	129.3	127.9
Infrastructure renewals expenditure	25.0	24.6
Infrastructure renewals charge	(25.0)	(24.6)
Grants and contributions	(6.3)	(6.1)
Depreciation (including capital grants)	(55.9)	(54.8)
Disposal of assets	(1.2)	(1.2)
Closing RCV (pre regulatory adjustments)	<u>2,244.9</u>	<u>2,133.3</u>
Regulatory adjustments	<u>-</u>	<u>-</u>
Closing RCV	<u>2,244.9</u>	<u>2,133.3</u>
Average RCV	<u>2,189.1</u>	<u>2,089.4</u>

The PC15 Final Determination includes a number of regulatory adjustments within the roll forward of the PC13 RCV at 31st March 2015. These adjustments are set out in the Utility Regulator's PC15 Final Determination Annex A 'Financing Investment'. Similar adjustments for the PC15 period will be included at 31st March 2021.

13 Atypical and re-organisational operating expenditure items

The following items are considered to represent atypical and re-organisational operating expenditure in accordance with Regulatory Accounting Guideline 3.06 (RAG 3). Atypical items are deemed to be 'one off' in nature and are considered by the Utility Regulator when undertaking comparative efficiency analysis.

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Business improvement programme	2,530	1,683
Voluntary Early Retirement / Voluntary Severance schemes	567	583
Total	3,097	2,266

Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited

We have audited the Regulatory Accounts of Northern Ireland Water Limited ("the Company") for the year ended 31 March 2017 as set out on pages 1-28 which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between the Statutory and Regulatory Accounts; and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost reconciliation of movements in Shareholder's funds, the current cost cash flow statement and the related notes to the current cost financial statements including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

Opinions and conclusions arising from our audit

1 Our opinion on the regulatory accounts is unmodified

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the Northern Ireland Authority for Utility Regulation ("NIAUR") and the accounting policies set out on pages 14-17, the state of the Company's affairs at 31 March 2017 on an historical cost and current cost basis, and its historical cost profit, the current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies.

2 Our opinion on the regulatory accounts is accompanied by an emphasis of matter - basis of valuation of tangible fixed assets

The accounting policies of the Regulatory Accounts set out details in respect of the current cost basis of valuation of tangible fixed assets. We draw your attention to the fact that the valuation is not based on a Modern Equivalent Asset Value (MEAV) as required by the Regulatory Accounting Guidelines as the NIAUR has granted the Company a specific exemption in this regard. Our opinion is not qualified in this regard.

3 Our opinion on the regulatory accounts is accompanied by an emphasis of matter - basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the EU ('IFRSs'). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 4 to 9 have been drawn up in accordance with Regulatory Accounting Guideline 3.07, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 are given on pages 8-9.

4 Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Basis of our report, responsibilities and restriction on use

- (i) As explained more fully in the Statement of Directors' Responsibilities set out on page 2 the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated paragraph (iv) below, and having regard to the guidance contained in Tech 02/16AAF "Reporting to Regulators on Regulatory Accounts" issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Financial Reporting Council Ethical Standards for Auditors.
- (ii) An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Regulatory Accounts.
- (iii) In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

- (iv) We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company. Furthermore, as the nature, form and content of the Regulatory Accounts are determined by the NIAUR, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).
- (v) Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2017 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.
- (vi) This report is made, on terms that have been agreed, solely to the Company and the NIAUR in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Department for Regional Development to Northern Ireland Water Limited as a water and sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the NIAUR those matters that we have agreed to state to them in our report, in order:
- (a) to assist the Company to meet its obligation under the Company's Instrument of Appointment to procure such a report; and
 - (b) to facilitate the carrying out by the NIAUR of its regulatory functions, 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 NIAUR, for our audit work, for this report, or for the opinions we have formed.



KPMG
Chartered Accountants
Belfast
28 June 2017

Notes:

1. The maintenance and integrity of the Company's web site is the responsibility of the Directors and the maintenance and integrity of the Utility Regulator's web site is the responsibility of the Utility Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.