

Dalriada Water Limited

Annual report and financial statements

Registered number NI050161

Year ended 31 March 2023

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Dalriada Water Limited
Annual report and financial statements
31 March 2023

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Directors and advisers

Directors

R Larkin
S Venning

Company secretary

M Ellesmere

Independent auditors

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

Registered office

Dunore Point Water Treatment Works
9 Dunore Road
Aldergrove
Crumlin
Co. Antrim
BT29 4DZ

Bankers

Barclays Bank plc
Donegall House
7 Donegall Square North
Belfast
BT1 5GB

Strategic report

The directors present their strategic report for the year ended 31 March 2023.

Principal activities and review of business

On 30 May 2006 Dalriada Water Limited ('the Company') entered into a Public Private Partnership (PPP) concession agreement with the Northern Ireland Water Service, an executive agency of the Department for Regional Development to deliver Project Alpha - a project to design, build and finance four clean water treatment works around Lough Neagh, and to operate and maintain these works over a 25 year period. The Authority has subsequently been incorporated as a Government Company (GoCo) and is now referred to as Northern Ireland Water (NIW). In accordance with the concession agreement, Dalriada Water Limited is responsible for operating the clean water treatment works together with carrying out all of the routine and major life cycle maintenance throughout the 25 year period of the concession.

On 20 November 2017 NI Water Clear Limited purchased Dalriada Water Limited and Kelda Water Services (Alpha) Limited. NI Water Clear Limited is wholly owned by NIW. At the same time Kelda Water Services (Alpha) Limited changed its name to Northern Ireland Water Alpha Limited. Post acquisition, the Company transitioned to FRS101 IFRS in line with its parent undertaking Northern Ireland Water and additionally made a prior year adjustment to its financial statements to account for a change in accounting policy from fixed asset accounting to finance contract debtor accounting.

Northern Ireland Water Alpha Limited carries out all of the operation and maintenance activities on behalf of Dalriada Water Limited in accordance with a principal sub-contract between the parties which also came into effect on 30 May 2006.

Dalriada Water Limited provides to NIW the required quantity of water at each of the sites to the specified water quality standards. In return for doing so Dalriada Water Limited earns a unitary charge from NIW and pays a monthly fee to Northern Ireland Water Alpha Limited for their services in operating the water treatment works and providing water to the required quantity and quality standards.

Under the terms of its contract with NIW, Dalriada Water Limited incurs performance deductions for any deviation from the required contractual water quality standards. These standards are set to significantly higher standards than the normal regulatory limits.

Financial performance and outlook

The performance during 2022/23 before tax was better than the prior year. The increase in profit before tax is primarily due to the increase in interest received offsetting a lower operating profit in the financial year.

2022/23 continued with an excellent overall operational performance of Dalriada Water Limited. It was an excellent year for the operating company Northern Ireland Water Alpha Ltd in terms of contractual compliance and exceptional health and safety performance.

Throughout the year Dalriada Water Limited continued to make a series of six-monthly debt repayments to the banks that provided the funding to support the capital maintenance of the assets. Dalriada Water Limited will continue to repay its debt over the course of the 25 year operational lifetime of the assets.

Principal risks and uncertainties

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

On a quarterly basis throughout 2022/23 the directors of the Company reviewed the Company's strategic risk register. Risks are evaluated both in financial terms and in relation to their impact and likelihood and appropriate mitigation actions are assigned following the review.

Although at present there are no immediate risks considered likely to have a significant impact on the short or long term value of the Company the principal risks identified are as follows

Strategic report *(continued)*

Principal activities and review of business *(continued)*

Financial risk management

The financial risk management objectives of the Company are to ensure that the financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. Financial instruments are not used for speculative purposes. Interest rate swaps are in place between 2006 and 2030 for notional principal amounts equating to half of the value of the expected bank debt that is at a variable rate of interest to give an effective fixed interest payable on this debt. The remaining half of the bank debt is at a fixed rate.

Credit and cash flow risks arise from Dalriada Water Limited's client and ultimate parent undertaking, Northern Ireland Water. The credit and cash flow risks are not considered significant as the client, NIW, is a 100% government owned company.

Price risk during the construction phase was mitigated as the contract to build the water treatment works was based upon a fixed price. From service commencement, the majority of the operating revenue is derived from an index linked fixed unitary charge with the remainder based on the volumes of water delivered to the client at an indexed price.

The Company's liquidity risk is principally managed through financing the group by means of long term borrowings with an amortisation profile that matches the expected availability of funds from the Company's operating reserves. In addition the Company maintains reserve bank accounts to provide short term liquidity against future debt service and other expenditure requirements.

Contractual relationships

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

Health, safety and environment

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

Key performance indicators

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

Operating profit and net liabilities for both the current year and comparatives have been stated below on a contract debtor basis. Operating profit gives an indication of the Company's operating performance from a financial perspective. The operating profit of £1,159,000 (2022: £2,043,000) reflects lower revenue and costs in the year.

The Company is in a net assets position at the year end of £14,012,000 (2022: net assets of £7,330,000). The directors believe that preparing the financial statements on the going concern basis is appropriate due to the financial position of the Company at year end and its forecasted future performance.

Strategic report *(continued)*

Future developments

The Company remains keen to explore ways of increasing the efficiency of the existing business and to generate additional turnover streams as it enters the 2023/24 year. The Company continues to work with NIW to explore siting additional renewable energy generation on one or more of the sites it is responsible for, the concept being to supply NIW with the electricity generated from any such development. The Company also continues to explore opportunities to bring about service improvements that benefit both NIW and the Company, through, for example, the submission of an annual Continuous Service Improvement Report.

On behalf of the board



S Venning
Director

29 June 2023

Directors' report

The directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2023.

Results and dividends

The profit for the financial year amounts to £4,034,000 (2022: £(865,000)). See review of business in the Strategic Report on page 2.

The directors have not recommended the payment of a dividend (2022: £nil).

Impact of COVID-19

The COVID-19 pandemic had minimal impact on Dalriada in the year. The demand for treated water from NIW was not affected and despite the restrictions, Dalriada was still able to meet its contractual obligations to the client.

Impact of Brexit

The Company experienced minimal impact from Brexit as it liaised closely with key suppliers in preparation for Brexit and it experienced no significant disruption in the supply chain.

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the financial position of the Company at year end and its forecasted future performance.

Events since the end of the year

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

Directors

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

R Larkin
S Venning

Political donations and expenditure

The Company made no political contributions nor incurred any political expenditure during the accounting period to 31 March 2023 (2022: £nil).

Directors' statement as to disclosure of information to the auditor

So far as the directors are each aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' indemnities

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

Independent auditors

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

On behalf of the board



S Venning
Director

29 June 2023

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

On behalf of the board



S Venning
Company Director

29 June 2023



KPMG

Audit
The Soloist Building
1 Lanyon Place
Belfast BT1 3LP
Northern Ireland

Independent auditor's report to the members of Dalriada Water Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Dalriada Water Limited ('the Company') for the year ended 31 March 2023 set out in pages 10-23, which comprise the profit and loss account and other comprehensive income, balance sheet, statement of changes in equity and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is UK Law and FRS 101 *Reduced Disclosure Framework*.

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with FRS 101 *Reduced Disclosure Framework* issued by the UK's Financial Reporting Council; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.



Independent auditor's report to the members of Dalriada Water Limited (*continued*)

Report on the audit of the financial statements (*continued*)

Detecting irregularities including fraud

We identified the areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements and risks of material misstatement due to fraud, using our understanding of the entity's industry, regulatory environment and other external factors and inquiry with the directors. In addition, our risk assessment procedures included: inquiring with the directors as to the Company's policies and procedures regarding compliance with laws and regulations and prevention and detection of fraud; inquiring whether the directors have knowledge of any actual or suspected non-compliance with laws or regulations or alleged fraud; inspecting the Company's regulatory and legal correspondence; and reading Board minutes.

We discussed identified laws and regulations, fraud risk factors and the need to remain alert among the audit team.

The Company is subject to laws and regulations that directly affect the financial statements including companies and financial reporting legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items, including assessing the financial statement disclosures and agreeing them to supporting documentation when necessary.

The company is not subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements.

Auditing standards limit the required audit procedures to identify non-compliance with these non-direct laws and regulations to inquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

We assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. As required by auditing standards, we performed procedures to address the risk of management override of controls. On this audit we do not believe there is a fraud risk related to revenue recognition. We did not identify any additional fraud risks.

In response to risk of fraud, we also performed procedures including: identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation; evaluating the business purpose of significant unusual transactions; assessing significant accounting estimates for bias; and assessing the disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Other information

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

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



Independent auditor's report to the members of Dalriada Water Limited (*continued*)

Report on the audit of the financial statements (*continued*)

Opinions on other matters prescribed by the Companies Act 2006

Based solely on our work on the other information undertaken during the course of the audit:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities or error, and to issue an opinion in an auditor's report. 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, other irregularities or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Dominic Mudge [Senior Statutory Auditor]
for and on behalf of
KPMG Statutory Auditor
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

3 July 2023

Profit and Loss Account
for the year ended 31 March 2023

	<i>Note</i>	2023 £000	2022 £000
Turnover	2	12,732	13,902
Operating costs		(11,573)	(11,859)
Operating profit		1,159	2,043
Interest receivable and similar income	5	6,975	6,326
Interest payable and similar expenses	6	(4,705)	(5,254)
Profit before taxation		3,429	3,115
Tax on profit	7	605	(3,980)
Profit/ (Loss) for the financial year		4,034	(865)

Statement of Other Comprehensive Income and Expense
for the year ended 31 March 2023

	<i>Note</i>	2023 £000	2022 £000
Profit/ (Loss) for the financial year		4,034	(865)
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		3,531	3,708
Income tax on other comprehensive income	7	(883)	(433)
Other comprehensive income for the year, net of income tax		2,648	3,275
Total comprehensive income for the year		6,681	2,410

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

The notes on pages 13 to 23 form part of these financial statements

Balance Sheet
as at 31 March 2023

	<i>Note</i>	2023 £000	2022 £000
Current assets			
Debtors	8	91,028	95,788
Cash at bank and in hand		14,293	13,901
		<hr/>	<hr/>
Creditors: amounts falling due within one year	9	105,321 (16,801)	109,689 (16,412)
		<hr/>	<hr/>
Net current assets		88,520	93,277
		<hr/>	<hr/>
Total assets less current liabilities		88,520	93,277
		<hr/>	<hr/>
Creditors: amounts falling due after more than one year	10	(61,511)	(73,288)
		<hr/>	<hr/>
Provisions for liabilities			
Taxation including deferred tax	13	(12,997)	(12,659)
		<hr/>	<hr/>
Net assets/(liabilities)		14,012	7,330
		<hr/> <hr/>	<hr/> <hr/>
Capital and reserves			
Called up share capital	14	-	-
Cash flow hedge reserve		(739)	(3,387)
Profit and loss account		14,751	10,717
		<hr/>	<hr/>
Total shareholders' funds/(deficit)		14,012	7,330
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 13 to 23 form part of these financial statements.

The financial statements were approved by the board of directors on 29 June 2023 and were signed on its behalf by:



R Larkin
Director

Company registered number: NI050161

Statement of Changes in Equity
for the year ended 31 March 2023

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholders' funds/ (deficit) £000
Balance at 1 April 2021	-	(6,662)	11,582	4,920
Total comprehensive income for the year				
Profit	-	-	(865)	(865)
Other comprehensive income for the year				
Effective portion of changes in fair value of cash flow hedges	-	3,708	-	3,708
Income tax on other comprehensive income	-	(433)	-	(433)
Total comprehensive income for the year	-	3,275	(865)	2,410
Balance at 31 March 2022	-	(3,387)	10,717	7,330

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholders' funds/ (deficit) £000
Balance at 1 April 2022	-	(3,387)	10,717	7,330
Total comprehensive income for the year				
Profit	-	-	4,034	4,034
Other comprehensive income for the year				
Effective portion of changes in fair value of cash flow hedges	-	3,531	-	3,531
Income tax on other comprehensive income	-	(883)	-	(883)
Total comprehensive income for the year	-	2,648	4,034	6,682
Balance at 31 March 2023	-	(739)	14,751	14,012

The notes on pages 13 to 23 form part of these financial statements.

Notes to the financial statements

1 Accounting policies

Dalriada Water Limited (the "Company") is a private company limited by shares and incorporated, domiciled and registered in the UK. The registered number is NI050161 and the registered address is Dunore Point Water Treatment Works, 9 Dunore Road, Aldergrove, Crumlin, Co Antrim BT29 4DZ.

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

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

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

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

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

As the consolidated financial statements of Northern Ireland Water include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

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

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant note of material adjustment are set out on page 14.

The company has adopted the following IFRSs in these financial statements:

- Onerous contracts – Costs of Fulfilling a Contract (Amendments to IAS 37) - This has not had a significant impact on the financial statements.
- Property, plant and equipment: Proceeds before intended use (Amendments to IAS 16) - This has not had a significant impact on the financial statements.
- Reference to the Conceptual Framework (Amendments to IFRS 3) - This has not had a significant impact on the financial statements.
- Annual Improvements to IFRS Standards 2018-2020 - This has not had a significant impact on the financial statements.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

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

Financial instruments (policy applicable from 1 April 2018)

i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in joint ventures, associates and subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Financial instruments (policy applicable from 1 April 2018) (continued)

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Intra-group financial instruments

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

(iii) Impairment

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Financial instruments (policy applicable from 1 April 2018) *(continued)*

(iii) Impairment (continued)

The company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Provisions

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

Turnover

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

Expenses

Interest receivable and interest payable

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

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

During the construction phase of the concession agreement, all interest costs were capitalised within other capitalised costs which will then be amortised over the remainder of the 25 year contract term. This amortisation rate, although not the effective interest rate required by FRS101, is deemed by the directors to not be materially different.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Taxation

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

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

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

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

2 Turnover

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

	2023	2022
	£000	£000
Contract revenue	12,732	13,902
Total	12,732	13,902

All turnover derives from the Company's principal activity which is carried out in the United Kingdom.

3 Expenses and auditor's remuneration

Included in profit are the following:

	2023	2022
	£000	£000
<i>Auditor's remuneration:</i>		
Audit of these financial statements	10	9

4 Staff costs and directors' emoluments

The Company did not have any employees during the year ended 31 March 2023 (2022: nil).

The directors did not receive any emoluments for their services from the Company (2022: £nil). All directors' emoluments have been included in the financial statements of Northern Ireland Water Limited.

Notes to the financial statements (continued)

5 Interest receivable

	2023	2022
	£000	£000
Interest income on bank deposits	350	11
Interest income on unimpaired financial assets	6,625	6,315
	6,975	6,326
	6,975	6,326

Of the above amount £nil (2022: £nil) was receivable from group undertakings.

6 Interest payable and similar expense

	2023	2022
	£000	£000
Interest expense on financial liabilities at amortised cost	4,705	5,254
	4,705	5,254
	4,705	5,254

Interest payable and similar charges includes interest payable on bank loans and overdrafts of £3,400,000 (2022: £3,678,000). Of the above amount £1,305,000 (2022: £1,576,000) was payable to group undertakings.

7 Taxation

Total tax recognised in the profit and loss account

	2023	2022
	£000	£000
<i>UK Corporation tax</i>		
Current tax on income for the year	-	-
Adjustments in respect of prior periods	(60)	-
	(60)	-
Total current tax	(60)	-
<i>Deferred tax (see note 13)</i>		
Origination and reversal of temporary differences	-	-
Change in tax rate	-	3,099
Adjustments in respect of prior periods	(33)	7
Current year tax (credit)/ charge	(512)	874
	(545)	3,980
Total deferred tax	(545)	3,980
	(605)	3,980
Total tax (credit)/charge on profit/ (loss) on ordinary activities	(605)	3,980

	2023	2023	2023		2022	2022
	£000	£000	£000	£000	£000	£000
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	(60)	(545)	(605)	-	3,980	3,980
Recognised in statement of comprehensive income	-	883	883	-	433	433
	(60)	338	278	-	4,413	4,413
Total tax charge/(credit)	(60)	338	278	-	4,413	4,413

Notes to the financial statements *(continued)*

7 Taxation *(continued)*

Reconciliation of effective tax rate

	2023	2022
	£000	£000
Profit/ (Loss) for the year	4,034	(865)
Total tax (credit)/ charge	(605)	3,980
Profit excluding taxation	3,429	3,115
Tax using the UK corporation tax rate of 19% (2022: 19%)	651	592
Non-deductible expenses	-	-
Non taxable income	17	14
Group Relief not paid for	(1,057)	-
Corporation Tax prior year adjustment	(60)	-
Adjustments in respect of prior periods	(33)	7
Tax rate changes	-	3,099
Deferred tax current year movements	-	77
Rate differences	(123)	191
Total tax (credit)/charge on profit/ (loss) on ordinary activities	(605)	3,980

Factors affecting future tax charge

The corporation tax rate enacted at the balance sheet date is 25% and the deferred tax for 2022/23 has been calculated at the appropriate tax rate which is expected to apply when the assets are realised or liabilities settled.

The future tax charge may also be impacted by the following:

- A restriction on the use of brought forward losses (including capital losses) may affect Groups that were previously loss making that become profit making, and have profits over £5m.

This measure may result in cash tax being payable before all of the trading losses brought forward have been utilised.

- Structures and Buildings Allowances were introduced for eligible costs incurred where contracts were entered on or after 29th October 2018. Structures and Buildings allowances will be available when the asset is brought into use.

- Super Deductions capital allowances were introduced for eligible costs incurred between 1st April 2021 and 31st March 2023, where contracts were entered on or after 3rd March 2021. The tax relief is available in the form of a 130% first year allowance in relation to qualifying plant and machinery assets and a 50% first year allowance for most qualifying special rate assets.

- New Full expensing capital allowances were announced in the Chancellor's Spring 2023 Budget for eligible costs incurred between 1st April 2023 and 31st March 2026. The tax relief is available in the form of 100% first year relief in relation to qualifying plant and machinery assets and a 50% first year allowance for qualifying special rate assets.

The Group considers itself to be a qualifying infrastructure company for the Public Infrastructure Exemption and does not anticipate that the corporate interest restriction rules will impact on the deductibility of interest payable by members of the Group.

Notes to the financial statements *(continued)*

8 Debtors

	2023	2022
	£000	£000
Amounts owed by group undertakings	3,207	3,145
Prepayments and accrued income	55	6
Corporation tax	750	134
Contract finance debtor	87,016	92,503
	91,028	95,788
	10,324	8,566
Due within one year	80,704	87,222
Due after more than one year		

Included within debtors is £80,703,000 (2022: £87,222,000) expected to be recovered in more than 12 months relating to the contract finance debtor. Amounts owed by group undertakings relate to intercompany trading balances and are unsecured, interest free and repayable on demand.

9 Creditors: amounts falling due within one year

	2023	2022
	£000	£000
Bank loans and overdrafts (see note 11)	6,352	5,900
Amounts owed to group undertakings	9,265	9,149
Taxation and social security	382	473
Other creditors	726	716
Accruals and deferred income	76	174
	16,801	16,412

Amounts owed to group undertakings includes £1,950,000 (2022: £794,000) of subordinated debt due to Northern Ireland Water Clear Limited. The terms in respect of this loan are included in note 11. The balance of amounts owed to group undertakings relates to intercompany trading balances which are unsecured, interest free and repayable on demand.

Notes to the financial statements *(continued)*

10 Creditors: amounts falling due after more than one year

	2023	2022
	£000	£000
Bank loans and overdrafts (see note 11)	50,502	56,800
Amounts owed to group undertakings (see note 11)	10,023	11,971
Other financial liabilities - interest rate swaps (see note 12)	986	4,517
	61,511	73,288
	61,511	73,288

The amount owed to group undertakings relates to subordinated debt due to Northern Ireland Water Clear Limited (see note 11).

The other financial liabilities relate to the fair value of interest rate swaps taken out to manage interest rate volatility on firm future commitments. The fair values of these derivatives at the balance sheet date are determined by reference to their market values, which are provided by a third party.

11 Interest-bearing loans and borrowings

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

Terms and debt repayment schedule

	Interest rate type	Nominal interest rate	Year of maturity	Repayment profile	2023	2022
					£000	£000
EIB secured bank loan	Fixed	5.18	2029	Semi Annual Capital and interest	25,893	29,087
RBC secured bank loan	Variable	SONIA plus Credit Adjustment	2030	Semi Annual Capital and interest	30,961	33,613
Subordinated loan from Northern Ireland Water Clear Limited	Fixed	10.58	2031	Semi Annual Capital and interest	11,973	12,766
					68,827	75,466
					68,827	75,466

Included within secured bank loans are amounts repayable after five years by instalments £9,403,000 (2022: £19,069,000). Included within the subordinated loan are amounts repayable after five years by instalments £9,705,000 (2022: £13,753,000). The secured bank loans are secured over the contract finance debtor with a carrying amount of £87,016,000 (2022: £92,503,000).

Notes to the financial statements *(continued)*

12 Other financial liabilities: amounts falling due after more than one year

	2023	2022
	£000	£000
Financial liabilities designated as fair value	986	4,517
	986	4,517

The financial liabilities relate to interest rate swaps, the fair value of which has been measured by independent experts using mark to market value.

13 Deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2023	2022	2023	2022	2023	2022
	£000	£000	£000	£000	£000	£000
Financial assets	-	-	13,243	14,093	13,243	14,093
Tax value of losses carried forward	-	(305)	-	-	-	(305)
Financial liability designated as fair value	(246)	(1,129)	-	-	(246)	(1,129)
Tax (assets) / liabilities	(246)	(1,434)	13,243	14,093	12,997	12,659
Net tax liabilities					12,997	12,659

Movement in deferred tax during the year

	1 April	Recognised	Recognised in	31 March
	2022	in profit	other	2023
	£000	£000	comprehensive	£000
			income	
			£000	
Financial assets	14,093	(850)	-	13,243
Other financial instruments	(1,129)	-	883	(246)
Tax value of loss carry-forwards utilised	(305)	305	-	-
	12,659	(545)	883	12,997

Notes to the financial statements (continued)

14 Capital and reserves

	2023 £000	2022 £000
Share Capital		
<i>Allotted, called up and fully paid</i>		
100 ordinary shares of £1 each (2022: 100 ordinary shares of £1) each	-	-
	<u> </u>	<u> </u>
Shares classified as shareholders' funds	-	-
	<u> </u>	<u> </u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur:

	Carrying Amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	£000	£000	£000	£000	£000	£000	£000
Interest rate swaps	986	-	-	-	-	-	(986)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	986	-	-	-	-	-	(986)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

15 Related parties

Identity of related parties with which the Company has transacted

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

16 Guarantees

In accordance with the share acquisition by the Northern Ireland Water Group of: (i) NI Water Clear 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.

17 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Northern Ireland Water Limited which is the ultimate parent company and controlling party.

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