

Notes to the Financial Statements

1 Accounting policies

The following statements outline the main accounting policies applied in the preparation of the financial statements.

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with United Kingdom accounting standards.

Turnover

Turnover represents the total value of water charges together with minor contracts and rental income.

Stocks of water

No value is placed on stocks of water held in reservoirs, which may vary from year to year.

Stock and work in progress

Stores are valued at the lower of cost and net realisable value.

Water charges

Water is billed either as a fixed rate (in advance or arrears) or as a metered charge (in arrears). No revenue is recognised for water supplied between the date of the last quarterly meter reading of the year, which is usually in December, and the year end. Fixed rate income is recognised for the year up to 31 December.

Fixed assets and depreciation

Fixed assets under construction are recognised within 'Uncompleted Works' until such time as they are first brought into use. At this point the asset is transferred to 'Property and Completed Works' and depreciation commences. Subsequent qualifying expenditure is transferred directly to 'Property and Completed Works'.

Depreciation is charged on a straight line basis in accordance with the rates of depreciation set out below for each major asset type. No depreciation is provided on freehold land.

Asset type	Depreciation period
Water mains - Iron	80 years
- Others	50 years
Buildings	60 years
Dams	60-100 years
Pumping plant	30 years
Reinforced concrete structures	80 years
Motor vehicles	3-6 years
Mobile plant and tools	3-10 years
Reverse osmosis plants	10 years

Deferred taxation

Deferred taxation is calculated on a full provision basis in accordance with Financial Reporting Standard 19 'Deferred Taxation'. As permitted under Financial Reporting Standard 19 - Deferred tax balances are not discounted to reflect the time value of money.

Retirement benefits

The Company values its liability in respect of defined retirement benefits in accordance with FRS 17 and following the unit cost method of calculation.

Any surplus or deficit in the defined benefit plan, being the difference between the value of the plan assets and the present value of the plan liabilities, is recognised in the balance sheet as an asset or liability to the extent that any surplus is recoverable through future reduced contributions or that, conversely, any deficit reflects a legal or constructive obligation. The defined benefit asset or liability is shown net of any related deferred tax liability or asset.

Notes to the Financial Statements (continued)

2 Fixed Assets

	Property and completed works	Uncompleted works	Motor vehicles, mobile plant & equipment	Total
	£'000	£'000	£'000	£'000
Cost				
Brought forward per prior year financial statements	73,212	378	1,947	75,537
Additions	179	2,557	234	2,970
Disposals	(2)	-	(130)	(132)
Transfers	2,169	(2,169)	-	-
Carried forward	<u>75,558</u>	<u>766</u>	<u>2,051</u>	<u>78,375</u>
Depreciation				
Brought forward per prior year financial statements	(15,711)	-	(1,246)	(16,957)
Charge for the year	(1,887)	-	(282)	(2,169)
Disposals	-	-	123	123
Carried forward	<u>(17,598)</u>	<u>-</u>	<u>(1,405)</u>	<u>(19,003)</u>
Net book value				
Brought forward	<u>£57,501</u>	<u>£378</u>	<u>£701</u>	<u>£58,580</u>
Carried forward	<u>£57,960</u>	<u>£766</u>	<u>£646</u>	<u>£59,372</u>

Of the £2,169,000 depreciation charge for the year, £282,000 relating to motor vehicles, mobile plant and equipment has been allocated to various cost centres included within the Cost of Sales and Administration Expense categories in the Profit and Loss Account.

At 31 December 2006 capital commitments contracted for amounted to £66,000 (2005: £214,000).

3 Debtors

	2006 £'000	2005 £'000
Trade debtors	3,155	3,060
Prepayments	235	376
Other debtors	41	-
	<u>£3,431</u>	<u>£3,436</u>

Notes to the Financial Statements (continued)

4 Creditors and accruals

	2006 £'000	2005 £'000
Trade creditors	507	604
Other creditors	315	508
Accruals and deferred income	1,573	1,540
	<u>£2,395</u>	<u>£2,652</u>

5 Jersey Income Tax

	2006 £'000	2005 £'000
Current tax		
Income tax on the profits for the year	189	161
Over provision for previous years	-	(34)
Total current tax	<u>189</u>	<u>127</u>
Deferred tax		
Charge for the year	226	258
Over provision for previous years	(3)	(62)
Total deferred tax	<u>223</u>	<u>196</u>
Total tax charge for the year	<u>£412</u>	<u>£323</u>

Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of Jersey income tax (20%). The differences are explained below:

	2006 £'000	2005 £'000
Profit before tax	<u>£2,800</u>	<u>£2,439</u>
Profit before tax multiplied by the standard rate of Jersey income tax of 20% (2005: 20%).	560	488
Tax at 20% on:		
Capital allowances for period in excess of depreciation	(110)	(99)
Capital expenditure, deductible for tax purposes	(139)	(203)
Profit on sale of fixed assets	(94)	(101)
Unclaimed capital allowances brought forward	(104)	-
Dividends on non equity shares - Non deductible	76	76
Current tax charge for year	<u>£189</u>	<u>£161</u>

Notes to the Financial Statements (continued)

6 Bank loans

	Repayment Dates	2006 £'000	2005 £'000
Facilities drawn down			
HSBC Bank plc	2010	3,650	3,650
HSBC Bank plc	2011	5,250	5,250
HSBC Bank plc	2013	6,000	6,000
		<u>£14,900</u>	<u>£14,900</u>
Loans falling due within one year		-	3,650
Loans falling due within between one and two years		-	-
Loans falling due after two years but less than five years		8,900	-
Loans falling due after five years or more		6,000	11,250
		<u>£14,900</u>	<u>£14,900</u>

The Company has a rolling overdraft facility with HSBC Bank plc. Unconditional guarantees have been given by the States of Jersey for the repayment of the principal and interest on loans up to a maximum of £16.2m taken out to fund the Company's capital works programme.

7 Deferred taxation

	2006 £'000	2005 £'000
Capital allowances	<u>£4,957</u>	<u>£4,734</u>
Brought forward	4,734	4,538
Transfer from profit and loss account	223	196
At 31 December	<u>£4,957</u>	<u>£4,734</u>

8 Pensions

The Company operates two formal pension schemes; a defined contribution scheme and a defined benefit scheme. There are also certain past employees whose pension or pension supplements, which are of a defined benefit nature, have not been funded by the Company's present or previous pension agreements (the 'unfunded scheme'). Where applicable, the liability of the Company in respect of the unfunded scheme is included within the disclosure below relating to the defined benefit section.

The defined contribution scheme and defined benefit scheme are both sections of The Jersey New Waterworks Retirement Benefits Plan 1987. The Trustees of the plan throughout the year were Paul Batho, Michael Le Brocq, Richard Pirouet, Helier Smith and Howard Snowden.

Defined contribution section

The defined contribution section of the plan was opened to new members on 1 May 2003.

Employer contributions during the period to 31 December 2006 totalled £32,000 (2005: £40,000).

Notes to the Financial Statements (continued)

Pensions continued

Defined benefit section and unfunded scheme

The liabilities of the defined benefit section of the plan are funded by contributions from the employer. The assets of the section are held separately from those of the Company, being administered by independent investment advisers. The defined benefit section of the plan was closed to new entrants with effect from 1 January 2003.

A full actuarial valuation of the defined benefit plan was carried out as at 31 December 2005 and updated to 31 December 2006 by a qualified actuary. The major financial assumptions used by the actuary were:

	2006	2005	2004
Rate of increase in salaries	4.51%	4.39%	4.86%
Rate of increase in pensions in respect of 1988 guarantee	5.00%	5.00%	5.00%
Rate of increase in pensions accrued after 1 January 1999	3.26%	3.14%	4.11%
Discount rate	5.16%	4.74%	5.23%
Inflation assumption	3.51%	3.39%	4.86%

The assets in the defined benefit plan and the expected rate of return as at 31 December were:

	2006		2005		2004	
	Expected long term rate of return	Value £'000	Expected long term rate of return	Value £'000	Expected long term rate of return	Value £'000
Equities	8.08%	7,140	8.04%	6,409	8.12%	5,199
Corporate bonds	4.99%	5,357	4.42%	5,209	5.23%	3,445
Cash	5.00%	46	4.50%	64	4.75%	553
Weighted rate of return on assets	6.75%	£12,543	6.41%	£11,682	6.83%	£9,197

	2006	2005	2004
Total market value of assets	£12,543	11,682	9,197
Present value of total pension liabilities	(15,043)	(15,532)	(13,096)
Pension deficit	(2,500)	(3,850)	(3,899)
Related deferred tax asset	500	770	780
Net total pension liability	£(2,000)	£(3,080)	£(3,119)

Analysis of the amount charged to Operating Profit

	2006	2005
Current service cost	£455	£417

Notes to the Financial Statements (continued)

Pensions continued

Analysis of the amount included in Other Finance Costs	2006	2005
	£'000	£'000
Expected return on defined benefit scheme assets	753	652
Interest on total pension liabilities	(747)	(693)
Net income / (charge) for the year	£6	£(41)
	<u> </u>	<u> </u>
Analysis of amount recognised in Statement of Total Recognised Gains and Losses	2006	2005
	£'000	£'000
Actual return less expected return on defined benefit scheme assets	(22)	1,135
Experience gains arising on the total pension liabilities	290	136
Changes in assumptions underlying the present value of the total pension liabilities	921	(2,011)
Actuarial gain / (loss) recognised	1,189	(740)
Current tax relief	32	158
Movement in deferred tax relating to net liability	(270)	(10)
Gain / (loss) recognised in statement of total recognised gains and losses	£951	£(592)
	<u> </u>	<u> </u>
Movement in deficit during the year	2006	2005
	£'000	£'000
Total pension deficit at beginning of the year	(3,850)	(3,899)
Deferred tax asset	770	780
	(3,080)	(3,119)
	<u> </u>	<u> </u>
Movement in year:		
Current service cost	(455)	(417)
Contributions and pensions paid	610	1,247
Other finance income / (charges)	6	(41)
Actuarial gain / (loss)	1,189	(740)
	(1,730)	(3,070)
	<u> </u>	<u> </u>
Movement in deferred tax asset	(270)	(10)
Total pension deficit at end of the year	£(2,000)	£(3,080)
	<u> </u>	<u> </u>

Notes to the Financial Statements (continued)

Pensions continued

History of experience gains and losses	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Difference between the expected and actual return on plan assets:					
Amount	(22)	1,135	162	409	(2,012)
Percentage of plan assets	0.2%	9.7%	1.8%	5.3%	31%
Experience gains and losses on total pension liabilities:					
Amount	290	136	194	13	(386)
Percentage of the present value of pension liabilities	1.9%	0.9%	1.5%	0.1%	3%
Total amount recognised in statement of total recognised gains and losses:					
Amount	951	(592)	(111)	198	(2,449)
Percentage of the present value of pension liabilities	6.3%	3.8%	0.8%	1.6%	21%

Funding of the defined benefit pension plan

The actual funding of the defined benefit pension scheme is determined by the triennial actuarial valuation and this differs from the amount that is required to be charged to the profit and loss account under Financial Reporting Standard 17. During the year the Company made scheduled retirement benefit contributions into the defined benefit scheme totalling £588,000 (2005: £708,000), no special contributions were made during the year (2005: £500,000).

Following the results of the latest triennial actuarial valuation as at 1 January 2006 the contribution rate for 2006, 2007 and 2008 was set at 14.9% of Pensionable Salaries plus £250,000 per annum to reduce the scheme deficit.

As the defined benefit scheme is closed to new members from 1 January 2003, under the projected unit method, the current service cost will increase as a percentage of salaries as the members of the scheme approach retirement.

9 Share capital

a) Equity share capital

	2006 £'000	2005 £'000
Authorised		
252,000 ordinary shares of £1	252	252
231,000 'A' ordinary shares of £1	231	231
	<u>£483</u>	<u>£483</u>
Issued and fully paid		
252,000 ordinary shares of £1	252	252
231,000 'A' ordinary shares of £1	231	231
	<u>£483</u>	<u>£483</u>

Notes to the Financial Statements (continued)

Share capital continued

Ordinary and 'A' ordinary shares carry no right to fixed income and rank after preference shares and other liabilities. Each ordinary share carries one vote in the event of a poll. Each 'A' ordinary share, whilst in the ownership of the States of Jersey, entitles the holder to such additional votes at a poll as brings the total number of votes attaching to the 'A' ordinary shares to twice the number of votes cast in respect of all other shares.

b) Non equity preference share capital

	2006 £'000	2005 £'000
Authorised		
20,000 cumulative preference shares of £5	100	100
20,000 cumulative second preference shares of £5	100	100
100,000 cumulative third preference shares of £5	500	500
100,645 cumulative fourth preference shares of £5	503	503
900,000 cumulative fifth preference shares of £5	<u>4,500</u>	<u>4,500</u>
	<u>£5,703</u>	<u>£5,703</u>
Issued and fully paid		
17,261 5% cumulative preference shares of £5	86	86
17,402 3.5% cumulative second preference shares of £5	87	87
23,509 3% cumulative third preference shares of £5	118	118
16,036 3.75% cumulative third preference shares of £5	80	80
11,400 5% cumulative third preference shares of £5	57	57
90,877 2% cumulative fourth preference shares of £5	454	454
900,000 10% cumulative fifth preference shares of £5	<u>4,500</u>	<u>4,500</u>
	<u>£5,382</u>	<u>£5,382</u>

Preference shares bear interest at the rates indicated above and rank, in the order listed, above ordinary and 'A' ordinary equity shares in the event of winding up.

Upon a poll, every holder of a preference share present at a general meeting in person or by proxy shall have one vote only for all the preference shares held by him, irrespective of the number and class of such preference shares.

10 Reserves

	Retained profit £'000	Capital reserve £'000	Total £'000
Brought forward per prior year financial statements	27,193	3,546	30,739
Retained profit for the year	1,318	-	1,318
Transfer of profit on sale of fixed assets to capital reserve	(469)	469	-
Gain relating to pension plan deficit recognised in the statement of total recognised gains and losses	951	-	951
Carried forward	<u>£28,993</u>	<u>£4,015</u>	<u>£33,008</u>

Notes to the Financial Statements (continued)

11 Reconciliation of movement in equity shareholders' funds

	2006	2005
	£'000	£'000
Profit for the year	2,388	2,116
Equity dividends	(1,070)	(1,372)
Retained profit for the year	1,318	744
Gain / (loss) arising on pension plan	951	(592)
Opening equity shareholders' funds	32,024	31,872
Closing equity shareholders' funds	<u>£34,293</u>	<u>£32,024</u>

12 Water supply charges

	2006	2005
	£'000	£'000
Unmeasured water charges	6,300	6,247
Measured water charges	5,549	5,247
Service charges and other charges for water	509	544
	<u>£12,358</u>	<u>£12,038</u>

13 Administration expenses

	2006	2005
	£'000	£'000
Included in administration expenses are the following:		
Directors' fees (note 20)	63	48
Auditors' fees - Statutory audit	28	24
- Other services (Tax advisory and compliance)	4	4

14 Interest payable

	2006	2005
	£'000	£'000
On loans and overdrafts from banks	<u>£839</u>	<u>£836</u>

15 Non equity dividends

Amounts are shown net of 20% tax

		2006			2005		
		Paid	Payable	Charge for the year	Paid	Payable	Charge for the year
		£'000	£'000	£'000	£'000	£'000	£'000
5%	cumulative preference shares	2	2	4	2	2	4
3.5%	cumulative second preference shares	2	1	3	2	1	3
3%	cumulative third preference shares	3	-	3	3	-	3
3.75%	cumulative third preference shares	2	-	2	2	-	2
5%	cumulative third preference shares	2	-	2	2	-	2
2%	cumulative fourth preference shares	7	-	7	7	-	7
7.5-10%	cumulative fifth preference shares	360	-	360	360	-	360
Total dividends on non-equity shares recognised in the year		<u>£378</u>	<u>£3</u>	<u>£381</u>	<u>£378</u>	<u>£3</u>	<u>£381</u>

Notes to the Financial Statements (continued)

16 Equity dividends

Amounts are shown net of 20% tax	2006	2005
	£'000	£'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2005 of 172 pence per ordinary and 'A' ordinary share (2004: 255.1 pence)	665	986
Interim dividend for the year ended 31 December 2006 of 105 pence per ordinary and 'A' ordinary share (2005: 100 pence)	405	386
	£1,070	£1,372
Proposed final dividend for the year ended 31 December 2006 of 181 pence per ordinary and 'A' ordinary share (2005: 172 pence)	£699	£665

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in the financial statements.

17 Earnings per ordinary share

The calculation of earnings per ordinary share of £1 is based on earnings of £2,388,000 (2005: £2,116,000), being the profit available for distribution to equity shareholders and 483,000 ordinary and 'A' ordinary shares of £1 in issue.

18 Reconciliation of operating profit to net cash flow from operating activities

	2006	2005
	£'000	£'000
Operating profit	3,533	3,176
Depreciation	2,169	2,172
Change in order to bring pension contributions onto a cash basis	(155)	(830)
Decrease in stores	22	8
Decrease in debtors	11	154
(Decrease) / Increase in creditors	(71)	403
Net cash inflow from operating activities	£5,509	£5,083

19 Analysis of changes in net debt

	At 1 January 2006	Cash Flows	Other Changes	At 31 December 2006
	£'000	£'000	£'000	£'000
Bank and cash	(277)	550	-	273
Debt due within one year	(3,650)	-	3,650	-
Debt due after one year	(16,632)	-	(3,650)	(20,282)
Total	£(20,559)	£550	£ -	£(20,009)

Notes to the Financial Statements (continued)

20 Directors' emoluments

	Salary	Fee	Benefits	Total Emoluments	
	<i>(excluding pension contributions)</i>			2006	2005
	£'000	£'000	£'000	£'000	£'000
Executives					
Howard Snowden ¹	91	8	9	108	100
Helier Smith ²	82	8	4	94	85
Non-Executives					
David Norman	-	15	-	15	12
Leonard Norman	-	8	-	8	6
Carlyle Hinault	-	8	-	8	6
Richard Pirouet	-	8	-	8	6
Stephen Marie	-	8	-	8	6

¹ For the year ended 31 December 2006 the Company's contribution in respect of Howard Snowden's pension was £13,000.

² For the year ended 31 December 2006 the Company's contribution in respect of Helier Smith's pension was £4,000.

Benefits for Mr Snowden consist of full expenses for the use of a motor car, private health care and prolonged disability and death in service insurance. Benefits for Mr Smith consist of motor fuel, private health care and prolonged disability and death in service insurance.

21 Ultimate controlling party

The ultimate controlling party of The Jersey New Waterworks Company Limited is the States of Jersey.