

# 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). Fixed rate income is recognised for the year up to 31 December. In a change from the previous accounting policy, income is now recognised on unbilled metered water supplied between the previous meter reading (usually December) and the year end. The previous policy was not to recognise metered water charges until they were actually billed.

The financial statements incorporate the change in accounting policy and the prior year results and balance sheet have been restated. The effect of the change in accounting policy is to increase retained profit by £93,000 for 2007 and £60,000 in 2006. Net assets as at 31 December 2007 increase by £596,000 and £446,000 for 2006.

## 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'.

As a result of a change of accounting policy, expenditure on the installation of meters, previously charged to the profit and loss account in the period incurred, is now capitalised and depreciated over 10 years. The effect of the change is to increase retained profit for 2007 by £173,000 and 2006 by £257,000. Net assets as at 31 December 2007 increase by £558,000 and as at 31 December 2006 increase by £590,000.

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
Meters.....	10 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 Tax. As permitted under FRS 19, deferred tax balances are not discounted to reflect the time value of money.

## Notes to the financial statements (continued)

### 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.

In December 2006, the Accounting Standards Board issued an amendment to FRS 17 applicable to accounting periods commencing on or after 6 April 2007, with early adoption of the changes being encouraged. The changes required in the amendment to FRS 17 have been included within the financial statements including the requirement to base the fair value of scheme assets on bid prices as at the year end. Previously, assets have been valued using mid-market prices. Accordingly, the results and balance sheet for the year end 31 December 2006, whilst not material, have been restated to incorporate the change in accounting policy.

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.

## 2 Fixed assets

	<b>Property and completed works £'000</b>	<b>Uncompleted works £'000</b>	<b>Motor vehicles mobile plant &amp; equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
Brought forward per prior year financial statements	75,558	766	2,051	<b>78,375</b>
Prior year adjustment	698	-	-	<b>698</b>
Restated brought forward	<u>76,256</u>	<u>766</u>	<u>2,051</u>	<b>79,073</b>
Additions	143	2,084	319	<b>2,546</b>
Disposals	(912)	-	(143)	<b>(1,055)</b>
Transfers	2,312	(2,320)	8	<b>-</b>
Carried forward	<u><b>£77,799</b></u>	<u><b>£530</b></u>	<u><b>£2,235</b></u>	<u><b>£80,564</b></u>
<b>Depreciation</b>				
Brought forward per prior year financial statements	(17,598)	-	(1,405)	<b>(19,003)</b>
Prior year adjustment	(108)	-	-	<b>(108)</b>
Restated brought forward	<u>(17,706)</u>	<u>-</u>	<u>(1,405)</u>	<b>(19,111)</b>
Charge for the year	(2,084)	-	(255)	<b>(2,339)</b>
Disposals	582	-	135	<b>717</b>
Carried forward	<u><b>£(19,208)</b></u>	<u><b>£-</b></u>	<u><b>£(1,525)</b></u>	<u><b>£(20,733)</b></u>
<b>Net book value</b>				
Restated brought forward	<u>£58,550</u>	<u>£766</u>	<u>£646</u>	<u><b>£59,962</b></u>
<b>Carried forward</b>	<u><b>£58,591</b></u>	<u><b>£530</b></u>	<u><b>£710</b></u>	<u><b>£59,831</b></u>

Of the £2,339,000 depreciation charge for the year, £255,000 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 2007 capital commitments contracted for amounted to £91,000 (2006: £66,000).

## Notes to the financial statements (continued)

### 3 Debtors

	2007	2006 Restated
	£'000	£'000
Trade debtors	3,198	3,155
Prepayments	365	235
Accrued income and other debtors	662	600
	<u>£4,225</u>	<u>£3,990</u>

### 4 Creditors and accruals

	2007	2006
	£'000	£'000
Trade creditors	312	507
Other creditors	358	315
Contract retentions	78	83
Accruals and deferred income	1,642	1,573
	<u>£2,390</u>	<u>£2,478</u>

### 5 Creditors due after more than one year

	2007	2006
	£'000	£'000
Defined benefit pension scheme contributions	1,065	-
Contract retentions	2	7
	<u>£1,067</u>	<u>£7</u>

During 2007 the Company agreed a special contribution into the defined benefit pension scheme totalling £1,065,000. The contribution is due for payment in 2009.

### 6 Jersey income tax

	2007	2006 Restated
	£'000	£'000
<b>Current tax</b>		
Income tax on the profits for the year	280	204
Over provision for previous years	(57)	-
Total current tax	<u>223</u>	<u>204</u>
<b>Deferred tax</b>		
Charge for the year	50	226
Over provision for previous years	-	(3)
Total deferred tax	<u>50</u>	<u>223</u>
<b>Total tax charge for the year</b>	<u>£273</u>	<u>£427</u>

## Notes to the financial statements (continued)

### Factors affecting tax charge for year

The basis of assessment of trading income to Jersey tax is changing from a prior year basis to a current year basis from 2008. The trading profits shown in these accounts are subject to transitional provisions under the Income Tax (Amendment No 28) (Jersey) Law 2007.

The profits chargeable to tax for the year of charge 2008 will be the average of the adjusted profits for the 2007 and 2008 accounting periods.

Previously, the Company accrued for current tax based on the taxable profit for that accounting period notwithstanding that tax was charged on the Company on a prior year basis. The accounting impact of the transition to an actual basis from 2008 is that only half of the year's profits for 2007 and 2008 year ends will suffer tax at 20%.

To recognise the impact of the transition, the Company is no longer accruing current tax on a prior year basis and, for 2007 and 2008 year ends, is providing for tax at 10% on the taxable profits arising in those years.

With effect from the 2008 year end the Company will make full provision for tax, based on the tax rate applicable to the Company, on its current year taxable profits.

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

	<b>2007</b>	2006 Restated
	<b>£'000</b>	£'000
Profit before tax	<b><u>£3,526</u></b>	<u>£3,130</u>
Profit before tax multiplied by the standard rate of Jersey income tax of 20%.	<b>705</b>	626
Tax at 20% on:		
Capital allowances for period in excess of depreciation	<b>(14)</b>	(96)
Capital expenditure, deductible for tax purposes	<b>(176)</b>	(204)
Profit on sale of fixed assets	<b>(35)</b>	(94)
Unclaimed capital allowances brought forward	-	(104)
Dividends on non equity shares - Non deductible	<b>76</b>	76
Effect of transitional provisions	<b>(276)</b>	-
Current tax charge for year	<b><u>£280</u></b>	<u>£204</u>

## Notes to the financial statements (continued)

### 7 Bank loans

	Repayment Dates	2007 £'000	2006 £'000
<b>Facilities drawn down</b>			
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		-	-
Loans falling due between one and two years		-	-
Loans falling due after two years but less than five years		8,900	8,900
Loans falling due after five years or more		6,000	6,000
		<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.

### 8 Deferred taxation

	2007 £'000	2006 £'000
Capital allowances	£5,007	£4,957
Brought forward	4,957	4,734
Transfer from profit and loss account	50	223
At 31 December	<u>£5,007</u>	<u>£4,957</u>

### 9 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 benefit section of the scheme was closed to new entrants with effect from 1 January 2003.

The defined contribution scheme and defined benefit scheme are both sections of The Jersey New Waterworks Retirement Benefits Plan (1987).

#### 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 2007 totalled £32,000 (2006: £32,000).

#### Defined benefit section and unfunded scheme

The FRS 17 actuarial valuation update as at 31 December 2007 shows a change from the 2006 deficit of £2,023,000 to a surplus of £180,000 in 2007.

## Notes to the financial statements (continued)

The major assumptions used by the actuary were:

	<b>2007</b>	2006
Rate of increase in salaries	<b>4.68%</b>	4.51%
Rate of increase in pensions accrued after 1 January 1999	<b>3.43%</b>	3.26%
Discount rate	<b>5.88%</b>	5.16%
Expected return on plan assets	<b>6.55%</b>	6.75%
Inflation assumption	<b>3.68%</b>	3.51%
Mortality assumptions		
Current pensioners at 65 - Male	<b>84</b>	84
Current pensioners at 65 - Female	<b>87</b>	87
Future pensioners at 65 - Male	<b>85</b>	85
Future pensioners at 65 - Female	<b>88</b>	88

The post-retirement mortality assumptions allow for expected increases in longevity.

The overall expected rate of return is based on the weighted average return of each class of asset at the start of each accounting period.

	<b>2007</b>	2006 Restated
	<b>£'000</b>	£'000
<b>Reconciliation of the present value of scheme liabilities</b>		
Opening scheme liabilities	<b>15,043</b>	15,532
Current service cost	<b>423</b>	455
Employee contributions	<b>29</b>	29
Interest cost	<b>785</b>	747
Actuarial gains	<b>(1,736)</b>	(1,211)
Benefits paid	<b>(578)</b>	(509)
Closing scheme liabilities	<b>£13,966</b>	£15,043
<b>Analysis of funded and wholly unfunded scheme liabilities</b>		
Funded scheme	<b>13,837</b>	14,899
Wholly unfunded scheme	<b>129</b>	144
Total present value of scheme liabilities	<b>£13,966</b>	£15,043
<b>Reconciliation of the fair value of scheme assets</b>		
Opening fair value of scheme assets	<b>12,514</b>	11,656
Expected return	<b>846</b>	751
Employer contributions	<b>1,651</b>	588
Employee contributions	<b>29</b>	29
Actuarial losses	<b>(288)</b>	(23)
Benefits paid	<b>(561)</b>	(487)
Closing fair value of scheme assets	<b>£14,191</b>	£12,514
<b>Actual return on scheme assets</b>	<b>£558</b>	£729

## Notes to the financial statements (continued)

	<b>2007</b>	2006
	<b>£'000</b>	Restated £'000
<b>Analysis of amounts shown in the balance sheet</b>		
Fair value of plan assets	<b>14,191</b>	12,514
Present value scheme liabilities	<b>(13,966)</b>	(15,043)
Surplus / (deficit)	<b>225</b>	(2,529)
Related deferred tax (liability) / asset	<b>(45)</b>	506
Net surplus / (deficit)	<b>£180</b>	£(2,023)

### Analysis of amounts recognised in the profit and loss account

Current service cost	<b>(423)</b>	(455)
Expected return on pension plan assets	<b>846</b>	751
Interest on pension plan liabilities	<b>(785)</b>	(747)
Total	<b>£(362)</b>	£(451)

Current service costs are included within administration expenses in the profit and loss account. Expected returns on pension plan assets and interest on pension plan liabilities are shown net within other finance income in the profit and loss account.

### Analysis of amounts recognised in the statement of total recognised gains and losses

	<b>2007</b>	2006
	<b>£'000</b>	Restated £'000
Actual return less expected return on pension scheme assets	<b>(288)</b>	(22)
Experience gains arising on scheme liabilities	<b>241</b>	290
Changes in assumptions underlying the present value of scheme liabilities	<b>1,495</b>	921
Actuarial gain recognised in the statement of total recognised gains and losses	<b>1,448</b>	1,189
Current tax relief	<b>24</b>	32
Movement in deferred tax relating to net surplus / liability	<b>(551)</b>	(270)
Gain recognised in the statement of total recognised gains and losses	<b>£921</b>	£951

### Cumulative amounts recognised in the statement of total recognised gains and losses

<b>£(1,185)</b>	£(2,106)
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### Analysis of scheme assets

	<b>2007</b>		2006	
	<b>Long term expected annual rate of return</b>	<b>% of total fair value of scheme assets</b>	Long term expected annual rate of return	% of total fair value of scheme assets
Equities	<b>8.42%</b>	<b>47.7%</b>	8.08%	56.9%
Corporate bonds	<b>4.72%</b>	<b>44.4%</b>	4.99%	42.7%
Cash and receivables	<b>5.5%</b>	<b>7.9%</b>	5.00%	0.4%
		<b>100.0%</b>		100.0%

## Notes to the financial statements (continued)

<b>History of experience gains and losses</b>	<b>2007</b>	2006	2005	2004	2003
		Restated	Restated	Not restated	Not restated
	<b>£'000</b>	£'000	£'000	£'000	£'000
Present value of scheme assets	<b>14,191</b>	12,514	11,655	9,197	7,691
Present value of scheme liabilities	<b>(13,966)</b>	(15,043)	(15,532)	(13,096)	(12,189)
Gross scheme surplus / (deficit)	<b>£225</b>	£(2,529)	£(3,877)	£(3,899)	£(4,498)

### Experience gains and losses on scheme liabilities

Amount	<b>241</b>	290	136	194	13
Percentage of scheme liabilities	<b>1.7%</b>	1.9%	0.9%	1.5%	0.1%

### Difference between the expected and actual return on scheme assets

Amount	<b>(288)</b>	(22)	1,108	162	409
Percentage of scheme assets	<b>2%</b>	0.2%	10%	2%	5%

### Funding of the defined benefit pension scheme

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. Employer contributions of £1,651,000 for 2007 include scheduled contributions into the defined benefit scheme totalling £586,000 (2006: £588,000) plus a special contribution of £1,065,000 (2006: £NIL) agreed in 2007 but not payable by the Company until 2009.

Prior to 1 January 2008, Company and member contributions were 14.6% and 5.0% (for contributory members). Future benefit changes with effect from 1 January 2008 have led to the following changes in contribution rates. Company contributions are to be paid at the rate of 12.3% of pensionable salaries from 1 January 2008, reducing to 9.8% in January 2009, plus fixed amounts of £250,000 per annum. Members will contribute at rates of 2.5% and 5.0% of pensionable salaries from 1 January 2008 and 1 January 2009 respectively. These rates will remain in force until the results of the formal actuarial valuation of the plan as at 1 January 2009 are known.

## 10 Share capital

### a) Equity share capital

	<b>2007</b>	2006
	<b>£'000</b>	£'000
<b>Authorised</b>		
252,000 ordinary shares of £1	<b>252</b>	252
231,000 'A' ordinary shares of £1	<b>231</b>	231
	<b>£483</b>	£483
<b>Issued and fully paid</b>		
252,000 ordinary shares of £1	<b>252</b>	252
231,000 'A' ordinary shares of £1	<b>231</b>	231
	<b>£483</b>	£483

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.

## Notes to the financial statements (continued)

### b) Non equity preference share capital

	2007	2006
	£'000	£'000
<b>Authorised</b>		
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	4,500	4,500
	<u>£5,703</u>	<u>£5,703</u>
<b>Issued and fully paid</b>		
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	4,500	4,500
	<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.

## 11 Reserves

	Retained profit	Capital reserve	Total
	£'000	£'000	£'000
Brought forward per prior year financial statements	28,993	4,015	33,008
Prior year adjustments	1,013	-	1,013
Restated brought forward balance	<u>30,006</u>	<u>4,015</u>	<u>34,021</u>
Retained profit for year	2,129	-	2,129
Transfer of profit on sale of fixed assets to capital reserve	(175)	175	-
Gain relating to pension plan deficit recognised in the statement of total recognised gains and losses	921	-	921
Carried forward	<u>£32,881</u>	<u>£4,190</u>	<u>£37,071</u>

## Notes to the financial statements (continued)

### 12 Reconciliation of movement in equity shareholders' funds

	<b>2007</b>	2006
	<b>£'000</b>	Restated £'000
Profit for the year	<b>3,253</b>	2,703
Equity dividends	<b>(1,124)</b>	(1,070)
Retained profit for the year	<b>2,129</b>	1,633
Gain arising on pension plan	<b>921</b>	951
Opening equity shareholders' funds	<b>35,306</b>	32,722
Closing equity shareholders' funds	<b>£38,356</b>	£35,306

### 13 Water supply charges

	<b>2007</b>	2006
	<b>£'000</b>	Restated £'000
Unmeasured water charges	<b>6,362</b>	6,300
Measured water charges	<b>5,972</b>	5,624
Service charges and other charges for water	<b>578</b>	509
	<b>£12,912</b>	£12,433

### 14 Administration expenses

	<b>2007</b>	2006
	<b>£'000</b>	£'000
Included in administration expenses are the following:		
Directors' fees (note 21)	<b>63</b>	63
Auditors' fees - Statutory audit	<b>30</b>	28
- Other services (Tax advisory and compliance)	<b>4</b>	4

### 15 Interest payable

	<b>2007</b>	2006
	<b>£'000</b>	£'000
On loans and overdrafts from banks	<b>£872</b>	£839

## Notes to the financial statements (continued)

### 16 Non equity dividends

	2007			2006		
	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
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>

### 17 Equity dividends

#### Ordinary and 'A' Ordinary shares

	2007	2006	2007	2006
			£'000	£'000
<b>Dividends paid</b>				
Final dividend for the previous year	£1.45	£1.38	699	665
Interim dividend for the current year	£0.88	£0.84	425	405
			<u>£1,124</u>	<u>£1,070</u>
<b>Dividends proposed</b>				
Final dividend for the current year	£1.64	£1.45	£792	£699

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.

### 18 Earnings per ordinary share

The calculation of earnings per ordinary share of £1 is based on earnings of £3,253,000 (2006: £2,703,000), being the profit available for distribution to equity shareholders and 483,000 ordinary and 'A' ordinary shares of £1 in issue.

### 19 Reconciliation of operating profit to net cash flow from operating activities

	2007	2006
	£'000	Restated £'000
Operating profit	4,498	3,865
Depreciation	2,339	2,239
Change in order to bring pension charges onto a contribution basis	(1,245)	(155)
Decrease in stock and work in progress	25	22
Decrease in debtors	(243)	(64)
Increase / (Decrease) in creditors	1,065	(71)
Net cash inflow from operating activities	<u>£6,439</u>	<u>£5,836</u>

## Notes to the financial statements (continued)

### 20 Analysis of changes in net debt

	At 1 January 2007	Cash Flows	Other Changes	At 31 December 2007
	£'000	£'000	£'000	£'000
Bank and cash	273	1,986	-	2,259
Debt due within one year	-	-	-	-
Debt due after one year	(20,282)	-	-	(20,282)
<b>Total</b>	<b>£(20,009)</b>	<b>£1,986</b>	<b>£-</b>	<b>£(18,023)</b>

### 21 Directors' emoluments

	Salary	Fee	Benefits	Total Emoluments	
	<i>(excluding pension contributions)</i>				
	£'000	£'000	£'000	2007 £'000	2006 £'000
<b>Executives</b>					
Howard Snowden <sup>1</sup>	94	8	11	113	108
Helier Smith <sup>2</sup>	86	8	5	99	94
<b>Non Executives</b>					
David Norman	-	15	-	15	15
Leonard Norman	-	3	-	3	8
Carlyle Hinault	-	8	-	8	8
Kevin Keen	-	5	-	5	-
Stephen Marie	-	8	-	8	8
Richard Pirouet	-	8	-	8	8

<sup>1</sup> For the year ended 31 December 2007 the Company's contribution in respect of Howard Snowden's pension was £13,000.

<sup>2</sup> For the year ended 31 December 2007 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.

### 22 Ultimate controlling party

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